

**MILWAUKEE MUTUAL INSURANCE COMPANY**  
**250 North Sunnyslope Road, Suite 250**  
**Brookfield, Wisconsin 53005**

\_\_\_\_\_, 2001

To Our Policyholders:

This packet contains information about a proposed reorganization of the legal structure of Milwaukee Mutual Insurance Company ("MMIC"). Specifically, as you may remember from prior notices you received concerning a public hearing on the matter, MMIC is proposing to reorganize into what is known as a mutual holding company structure (the "Restructuring"). The proposed Restructuring is set forth in a Mutual Holding Company Plan (the "Plan"), which was unanimously adopted by MMIC's Board of Directors on May 17, 2001. The Plan was also the subject of a public hearing conducted by the Office of the Commissioner of Insurance for the State of Wisconsin (the "Wisconsin Commissioner" or "Commissioner"), about which you were previously notified. The Wisconsin Commissioner approved the Plan, on \_\_\_\_\_, 2001. The Commissioner's approval is neither an endorsement of the Plan nor a recommendation to vote in favor of the Plan.

The Board believes the Plan is fair and equitable to you, the policyholders, and the Board expects that the Plan will benefit policyholders and will not be contrary to your interests or the interests of the Wisconsin public. The Board believes that, in the future, the most successful insurance companies will be those that have the structural, financial and strategic flexibility to respond quickly and decisively to changes in the marketplace, both in terms of pursuing (or defending against) potential acquisition activity and in terms of making changes or improvements in existing operations. In its current structure as a mutual insurance company, MMIC has limited options to respond to change in the marketplace and to grow or solidify its business operations through acquisition activity and/or the investment of excess surplus. Reorganizing to a mutual holding company structure maximizes MMIC's ability to raise capital, pursue business acquisitions, and invest in the technologies and personnel necessary to improve the efficiency and competitiveness of its insurance operations. It does this without altering the contract rights or services you are entitled to as a policyholder under your policies with MMIC, including the premiums you pay and the benefits you receive. The Plan also maintains the Company's "mutuality" so as to preserve our customary focus upon the needs of our current and future policyholders.

Before the Restructuring can take place, the Plan must be approved by a majority of policyholders entitled to vote on the same and present (in person or by valid proxy) at a Special Meeting called for that purpose (the "Special Meeting"). MMIC has scheduled a Special Meeting to take place at \_\_\_\_\_:\_\_\_\_\_.m. on \_\_\_\_\_, 2001 at the law offices of Foley & Lardner, 777 East Wisconsin Avenue, 40<sup>th</sup> Floor, Milwaukee, Wisconsin. To assist you in deciding and voting on whether to approve the Plan, I enclose the following materials:

- A Notice of a Special Meeting of Policyholders to be held on \_\_\_\_\_, 2001 for the purpose of considering and voting on the Plan;

- A Policyholder Information Statement, including a Summary at pages 3 through 15, which describes the Plan and the proposed Restructuring;
- Attachments to the Policyholder Information Statement, including a copy of the Plan as it was approved by the Board of Directors and the Wisconsin Commissioner and the exhibits thereto, and a proxy card for your vote on the Plan, which we ask that you sign and return.

I encourage you to read this information carefully. It fully describes the reasons why MMIC's Board of Directors and management have concluded that a mutual holding company structure would best serve the long-term interests of the company and its policyholders, and certain additional steps we are considering if the Plan is approved. These additional steps include the subsequent merger of the mutual holding company created by this Plan with an Illinois mutual holding company to be created by First Nonprofit Mutual Insurance Company, an Illinois mutual insurer. You are also cordially invited to attend the Special Meeting to vote on the Plan at that time. If you cannot or prefer not to attend, I encourage you to complete, sign and return your proxy card in the enclosed postage-paid envelope as soon as possible. Proxy cards must be received no later than 5:00 p.m., Central Time, on \_\_\_\_\_, 2001, in order to be counted as part of the vote at the Special Meeting.

**On behalf of the Board of Directors and the management of MMIC, I urge you to support the proposed Restructuring and to vote FOR the Plan.**

If you need assistance with your proxy vote, or if you have any questions about the Plan, please call us at 262-938-0046, Monday through Friday, from 9:00 a.m. to 4:00 p.m. Central Time.

We always appreciate and respect the confidence and trust you have placed in MMIC, and we look forward to continue serving your insurance needs.

Sincerely,

---

Daniel R. Doucette,  
President and Chief Executive Officer

**MILWAUKEE MUTUAL INSURANCE COMPANY**  
**250 North Sunnyslope Road, Suite 250**  
**Brookfield, Wisconsin 53005**

**Notice of Special Meeting of Policyholders**  
**To be held on \_\_\_\_\_, 2001**

**TO POLICYHOLDERS OF MILWAUKEE MUTUAL INSURANCE COMPANY:**

**NOTICE IS HEREBY GIVEN THAT** a Special Meeting of Policyholders of Milwaukee Mutual Insurance Company (“MMIC” or the “Company”) will be held at the law offices of Foley & Lardner, 777 East Wisconsin Avenue, 40<sup>th</sup> Floor, Milwaukee, Wisconsin, on \_\_\_\_\_, 2001 at \_:\_\_\_m. Central Time (the “Special Meeting”), for the following purposes:

1. To consider and vote upon a proposal to approve the Mutual Holding Company Plan of MMIC pursuant to Section 644.07(8) of the Wisconsin Statutes, and the transactions contemplated thereby. The full text of the Plan and the exhibits thereto are set forth as Attachment A to the accompanying Policyholder Information Statement; and
2. To consider and vote upon all other matters as may properly come before the meeting, or any adjournments or postponements thereof.

**THE BOARD OF DIRECTORS OF MMIC HAS UNANIMOUSLY ADOPTED THE PLAN AND APPROVED THE TRANSACTIONS CONTEMPLATED THEREBY AND BELIEVES THAT THE RESTRUCTURING PROVIDED FOR IN THE PLAN IS FAIR AND EQUITABLE TO THE POLICYHOLDERS OF MMIC AND WILL BENEFIT MMIC AND ITS POLICYHOLDERS. THE BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT THE POLICYHOLDERS OF MMIC VOTE FOR APPROVAL OF THE PLAN AND THE TRANSACTIONS CONTEMPLATED THEREBY, INCLUDING, AMONG OTHER THINGS, THE ADOPTION OF REVISED ARTICLES OF INCORPORATION OF MILWAUKEE MUTUAL INSURANCE COMPANY.**

The Wisconsin Commissioner of Insurance (the “Commissioner”) approved the Plan on \_\_\_\_\_, 2001. Wisconsin law provides that the Commissioner shall approve the Plan unless the Commissioner finds that the Plan violates the law, is not fair and equitable to policyholders or is contrary to the interests of policyholders or the public. **The Commissioner’s approval is neither an endorsement of the Plan nor a recommendation to vote in favor of the Plan.**

**PLEASE COMPLETE AND PROMPTLY RETURN THE ACCOMPANYING SPECIAL MEETING PROXY IF YOU DO NOT PLAN TO ATTEND THE SPECIAL MEETING.** Your vote must be cast in person at the special meeting or by a duly appointed proxy agent, in accordance with the instructions which accompany this Notice. You should mark your proxy with a vote either FOR, for adoption of the Plan, or AGAINST, against adoption of the Plan. A proxy which is signed but not marked FOR or AGAINST will be treated as a vote

FOR. Proxies which are marked both FOR and AGAINST will not count and will not be treated as votes cast. Giving a proxy does not affect your right to vote in person in the event that you attend the special meeting.

Mailed proxies must be received at the address set forth on the envelope (Proxy Return; \_\_\_\_\_) by 5:00 p.m. on \_\_\_\_\_, 2001 in order to be voted at the special meeting.

By Order of the Board of Directors

\_\_\_\_\_  
Secretary

Brookfield, Wisconsin  
\_\_\_\_\_, 2001

**MILWAUKEE MUTUAL INSURANCE COMPANY**

**A Wisconsin Property and Casualty Insurer**

**250 North Sunny Slope Road, #250  
Brookfield, WI 53005**

---

**POLICYHOLDER INFORMATION STATEMENT**

**Relating to the Proposed Mutual Holding Company Plan  
Of Milwaukee Mutual Insurance Company**

---

**Dated \_\_\_\_\_, 2001**

**No person has been authorized to give any information or to make any representations other than, or inconsistent with, those contained in this Policyholder Information Statement in connection with the Mutual Holding Company Plan referenced herein, and any such information or representation, if given or made, must not be relied upon as having been authorized by Milwaukee Mutual Insurance Company (“MMIC”) or any other person, firm or entity representing MMIC. The delivery of this Policyholder Information Statement shall not under any circumstances create an implication that there have not been any changes in the affairs of MMIC since the date hereof or that the information herein is correct as of any time subsequent to its date.**

## TABLE OF CONTENTS

	<u>Page</u>
INTRODUCTION .....	1
AVAILABLE INFORMATION.....	2
INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE .....	3
SUMMARY .....	3
Background of MMIC.....	3
Challenges Facing MMIC.....	4
Benefits of Restructuring to a Mutual Holding Company Structure .....	5
(1) Mutual-to-Mutual Transactions.....	5
(2) Maintain Mutuality.....	5
(3) Transactions with Non-Insurers, Diversification .....	6
(4) Stock as an Acquisition Currency .....	6
(5) Access to Capital Markets .....	6
Consideration of Alternatives .....	7
(1) Preserving the Status Quo .....	7
(2) Demutualization .....	7
Recommendation of Board of Directors.....	8
Description of the Restructuring.....	8
Effects of the Restructuring .....	9
(1) Operations and Business of MMIC .....	9
(2) Effect Upon Contract Rights and Equity Rights of MMIC Policyholders.....	10
(3) Directors and Executive Officers .....	11
(4) Corporate Governance.....	11
(5) Potential Sale of Stock of Subsidiaries.....	11
(6) Federal Tax Consequences.....	11
Voting Considerations and Risk Factors.....	12
(1) Movement of Subsidiaries and Other Assets.....	12
(2) Issuance of Stock to Third Parties .....	12
(3) Potential Conflicts between Interests of Policyholders and Shareholders.....	12
(4) Market Conditions .....	13

(5) Issuance of Debt .....	13
(6) No Fairness Opinion from an Investment Banker .....	13
(7) Possible Litigation .....	13
(8) Differences in Insolvency Laws .....	14
(9) Change in Regulations.....	14
(10) Absence of Implementing Regulations .....	14
(11) Reliance on Management .....	14
Special Meeting of Members .....	15
Conditions to Closing of Restructuring .....	15
THE RESTRUCTURING.....	15
Introduction.....	15
Background of MMIC.....	16
Challenges Facing MMIC in its Current Organizational Form .....	16
Benefits of Restructuring to a Mutual Holding Company Structure .....	17
(1) Mutual-to-Mutual Transactions.....	17
(2) Maintain Mutuality.....	18
(3) Transactions with Non-Insurers, Diversification .....	19
(4) Stock as an Acquisition Currency .....	19
(5) Access to Capital Markets .....	19
Consideration of Alternatives .....	20
(1) Preserving the Status Quo .....	20
(2) Demutualization .....	20
Recommendation of Board of Directors.....	21
Description of the Restructuring.....	22
Effects of the Restructuring .....	23
(1) Operations and Business of MMIC .....	23
(2) Effect Upon Contract Rights and Equity Rights of MMIC Policyholders.....	24
(3) Summary of Contract and Member Rights.....	25
(4) Directors and Executive Officers .....	25
(5) Corporate Governance.....	26
(6) Potential Sale of Stock of Subsidiaries.....	26
(7) Federal Tax Consequences.....	26
(8) Federal Securities Law Consequences .....	27
VOTING CONSIDERATIONS AND RISK FACTORS.....	27
Retention of Mutual Form of Organization .....	27
Organizational Flexibility .....	28
Your Rights as a Policyholder .....	28
No Consideration Distributed to Policyholders in the Conversion.....	29
Movement of Subsidiaries and Other Assets; Possible First Nonprofit Mutual Transaction.....	29
Issuance of Stock to Third Parties .....	29
Potential Conflicts between Interests of Policyholders and Shareholders.....	30
Marketability of Stock .....	30
Market Conditions .....	30
Issuance of Debt.....	30

No Fairness Opinion from an Investment Banker .....	31
Possible Litigation .....	31
Differences in Insolvency Laws.....	31
Holding Company Structure Limitations on Shareholder Dividends.....	31
Change in Regulations .....	32
Absence of Implementing Regulations.....	32
Reliance on Management.....	32
SELECTED FINANCIAL INFORMATION.....	32
SPECIAL MEETING .....	33
Date, Time and Place .....	33
Matters to be Considered .....	33
Eligibility to Vote .....	34
Vote Required.....	34
Voting; Revocation of Proxies.....	34
CONDITIONS TO CLOSING OF RESTRUCTURING .....	35
Approval of Eligible Members of MMIC.....	35
Certain U.S. Federal Tax Matters .....	35
Certain U.S. Federal Securities Matters.....	35
Other Conditions.....	35
AMENDMENT AND WITHDRAWAL OF THE PLAN.....	35
REGULATION.....	36
DIRECTORS AND OFFICERS OF MMIC, CONVERTED MMIC AND MIHC .....	36
TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY.....	39
Ongoing Negotiations, Letter of Intent and Agreement and Plan of Merger .....	39
The Three Components of the Proposed Transaction.....	39
(1) The 80% Quota Share Reinsurance Agreement.....	39
(2) Formation of Mutual Holding Companies .....	40
(3) The Merger of the Mutual Holding Companies .....	40
Information About FNP .....	41
GLOSSARY .....	42

List of Attachments

Mutual Holding Company Plan and exhibits thereto.....	Attachment A
---	--------------

## INTRODUCTION

This Policyholder Information Statement is being provided to Policyholders of MILWAUKEE MUTUAL INSURANCE COMPANY (“MMIC” or the “Company”) to describe the Company’s proposal to change the structure of MMIC from its current form as a mutual insurance company to that of a stock insurance company owned and controlled by a mutual insurance holding company organized under Chapter 644 of the Wisconsin Insurance Code (the “Restructuring”). Capitalized terms used in this Policyholder Information Statement are defined where first used herein and/or in the *GLOSSARY* appearing at page 42.

The proposal described herein is based upon a Mutual Holding Company Plan (the “Plan” or “Mutual Holding Company Plan”) adopted by the Board of Directors of MMIC (the “Board”) at a meeting of the Board held on May 17, 2001, a copy of which is attached hereto as Attachment A. After presiding over a public hearing on the Plan, the Office of the Commissioner of Insurance for the State of Wisconsin (the “Wisconsin Commissioner”) approved the Plan on \_\_\_\_\_, 2001. Pursuant to the Plan:

- MMIC will form Mutual Insurers Holding Company (“MIHC”), a Wisconsin mutual holding company;
- MMIC will convert to Milwaukee Insurance Company (“Converted MMIC”), a Wisconsin stock property and casualty insurance company;
- MIHC will be issued 100% of the shares of voting stock of Converted MMIC;
- All Policyholders with Membership Interests in MMIC will become Members of MIHC, and all Equity Rights in MMIC previously held by such Policyholders will be extinguished and replaced with Equity Rights in MIHC;
- All Policyholders with Contract Rights stemming from Policies of MMIC shall become Policyholders with Contract Rights stemming from Policies of Converted MMIC, and all such Contract Rights shall otherwise be and remain as they existed immediately prior to the Effective Date of the Restructuring.
- As contemplated by the Plan, representatives of MMIC have negotiated the form of a definitive agreement and plan of merger with representatives of Illinois-domiciled First Nonprofit Mutual Insurance Company (“FNP”) (the “Agreement and Plan of Merger”). Pursuant to the Agreement and Plan of Merger, MIHC will merge with and into First Nonprofit Mutual Holding Company (“FNPMHC”), the Illinois-domiciled mutual holding company to be created under FNP’s current plan of conversion. The Agreement and Plan of Merger will be executed following regulatory approval of MMIC’s and FNP’s respective plans to convert to mutual holding company structures, creation of the respective mutual holding companies, regulatory approval of the Agreement and Plan of Merger by the Wisconsin Commissioner and the Illinois Department of Insurance, and corporate approval of the Agreement and Plan of Merger by the respective boards of the mutual holding companies and the members of FNPMHC. Pursuant to the Agreement and Plan of Merger, MIHC will merge with and into FNPMHC.

FNPMHC will be the surviving corporate entity, but will change its name to “Mutual Insurers Holding Company.” For additional details regarding the terms and effects of the Agreement and Plan of Merger, see *TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY* beginning at page 39 of this Policyholder Information Statement.

This information is being provided to you pursuant to, and the actions being proposed herein are to be taken in accordance with, Chapter 644 of the Wisconsin Insurance Code and various other statutory provisions referenced and/or incorporated therein. This Policyholder Information Statement is being mailed to all Policyholders of MMIC who are eligible under the Wisconsin Insurance Code to vote on the Mutual Holding Company Plan at a Special Meeting of Members to be held at \_\_: \_\_ .m., Central Time, on \_\_\_\_\_, 2001, at the law offices of Foley & Lardner, 777 East Wisconsin Avenue, 40<sup>th</sup> Floor, Milwaukee, Wisconsin (the “Special Meeting”). Eligible Members may vote on the Plan either by mailing a proxy to MMIC or by attending the meeting and voting in person. If you prefer to vote by proxy, the enclosed proxy card enables you as an Eligible Member to vote “FOR” or “AGAINST” the proposed Plan and the transactions contemplated thereby, but in order to be counted, a completed proxy card must be received by MMIC no later than 5:00 p.m. on \_\_\_\_\_, 2001.

**The consummation of the Mutual Holding Company Plan is subject to, among other things, approval of a majority of those Eligible Members of MMIC voting at the Special Meeting.**

**The Board of Directors of MMIC unanimously approved and adopted the Mutual Holding Company Plan and, for reasons stated herein, recommends that Eligible Members vote “FOR” approval and adoption of the Plan at the Special Meeting.**

This Policyholder Information Statement and the accompanying form of proxy are being mailed on or about \_\_\_\_\_, 2001 to MMIC’s Policyholders. The date of this Policyholder Information Statement is \_\_\_\_\_, 2001.

#### **AVAILABLE INFORMATION**

MMIC is a mutual property and casualty insurer domiciled in the State of Wisconsin and licensed to do business in the states of Arizona, Colorado, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin. MMIC is subject in part to the laws and regulations of the State of Wisconsin applicable to insurance companies and, accordingly, files annual and quarterly financial reports (“Annual Statements” and “Quarterly Statements”) prepared on a statutory accounting basis and other information with the Wisconsin Commissioner as well as other state insurance departments.

In connection with obtaining approval of the Plan from the Wisconsin Commissioner, MMIC filed the Plan and other related documents, including drafts of this Policyholder Information Statement and the current form of the Agreement and Plan of Merger (collectively, the “Filing”), with the Wisconsin Commissioner pursuant to Chapter 644 of the Wisconsin Insurance Code. Policyholders of MMIC may inspect and obtain copies of the Filing, as well as the financial reports and other information filed by MMIC with the Wisconsin

Commissioner, during normal business hours at the offices of MMIC located at 250 North Sunny Slope Road, #250, Brookfield, WI 53005. Members of the public may inspect and make copies of the Filing, as well as the financial reports and other information filed by MMIC with the Wisconsin Commissioner, during normal business hours at the offices of the Wisconsin Commissioner located at 121 East Wilson Street, Madison, Wisconsin 53707-7873. The publicly available financial reports of MMIC can also be inspected and copied during normal business hours at the offices of the insurance regulatory agency in each of the states where MMIC does business. Any Policyholder who has questions about this Policyholder Information Statement or the Filing in general may call MMIC at 262-938-0046 during normal business hours.

### **INCORPORATION OF CERTAIN DOCUMENTS BY REFERENCE**

MMIC's Annual Statements for the years ended December 31, 2000, 1999 and 1998 as filed by MMIC with the Wisconsin Commissioner, and any Quarterly Statements filed by MMIC with the Wisconsin Commissioner during 2001 (including Quarterly Statements filed after the date hereof and prior to the Special Meeting), are incorporated by reference in this Policyholder Information Statement.

Statements contained in this Policyholder Information Statement or in any document incorporated herein by reference, as to the contents of any contract or other documents referred to herein or therein, are not necessarily complete, and in each instance where reference is made to the copy of such contract or other document filed as an exhibit to the Filing or such other document, each such statement is qualified in all respects by such reference. For the purposes of this Policyholder Information Statement, the documents referred to herein, including the Attachments, Exhibits, the Annual and Quarterly Statements and the other financial reports and the Filing, are deemed incorporated by reference in their entirety.

### **SUMMARY**

*The following summary is not complete, is not intended to be complete, and is qualified in all respects by the more detailed information appearing elsewhere in this Policyholder Information Statement. You are urged to read this Policyholder information Statement in its entirety.*

The Board of Directors unanimously approved the Mutual Holding Company Plan on May 17, 2001. After holding a public hearing on the Plan, the Wisconsin Commissioner approved the Plan on \_\_\_\_\_, 2001. The Plan will not become effective until all of the closing conditions are satisfied. See *CONDITIONS TO CLOSING OF RESTRUCTURING* at page 35.

#### *Background of MMIC*

MMIC is a property and casualty mutual insurance company based in Brookfield, Wisconsin. MMIC provides both personal and commercial lines coverages through independent agencies. MMIC's personal lines products include auto, homeowners and umbrella insurance, and its commercial products include commercial package policies (combining insurance for both

property and liability exposures arising out of the property), workers' compensation insurance, commercial auto and commercial umbrella. MMIC is licensed in Arizona, Colorado, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin, and over 90% of its business is generated in five states -- Wisconsin, Illinois, Minnesota, South Dakota and Indiana. MMIC's current A.M. Best rating is A+.

On October 2, 1995, Trinity Universal Insurance Company ("Trinity"), a subsidiary of Unitrin, Inc., acquired 100% ownership of Milwaukee Insurance Group, Inc. ("MIG"), a publicly traded holding company that was 48% owned by MMIC. Prior to the acquisition, MMIC participated in an intercompany reinsurance pooling arrangement (originally effective January 1, 1985) with two MIG subsidiaries, Milwaukee Guardian Insurance, Inc. and Milwaukee Safeguard Insurance Company. Under the terms of the pooling arrangement, the combined premiums, losses, and expenses of the three insurers were prorated between the insurers. MMIC's participation in the pooling arrangement varied over time, beginning at 76% in 1985, declining to 60% between 1987 and 1993, 40% between 1993 and 1995, and 5% for the time period between October 2, 1995 and December 31, 1996. As of January 1, 1997, the pooling arrangement was commuted effective October 2, 1995 and replaced by a reinsurance agreement pursuant to which Trinity reinsures 95% of MMIC's insurance business.

### *Challenges Facing MMIC*

MMIC's Board of Directors believes that, in the future, the most successful insurance companies will be those that have the structural, financial and strategic flexibility to respond quickly and decisively to changes in the marketplace, both in terms of pursuing (or defending against) potential acquisition activity and in terms of making changes or improvements in existing operations. The importance of flexibility and the ability to move quickly and decisively, particularly in the area of merger and acquisition activities, is further heightened by the recent deregulation of financial services, which introduces new competitors to the market in which MMIC participates and may lead to significant consolidation within and/or between the banking, insurance, and securities industries.

In its current structure as a mutual insurance company, MMIC has limited options to respond to change in the marketplace and to grow or solidify its business operations through acquisition activity and/or the investment of excess surplus. For example, MMIC cannot merge with other mutual insurers without one of the two entities ceasing to exist as a separate insurer. There are also limitations upon MMIC's ability to acquire or affiliate with non-insurers. In addition, MMIC currently has no stock to use as acquisition currency and limited ability to raise new capital. While MMIC has no current need to raise new capital and has no immediate plans to access the capital markets or otherwise obtain additional capital following the Restructuring, there is always the possibility – particularly in an environment of consolidation and increased competition – that a need for new capital may arise in the future.

MMIC confronts all of these structural limitations during a period of significant change in the insurance and financial services marketplaces.

## *Benefits of Restructuring to a Mutual Holding Company Structure*

In light of the foregoing, the Board of Directors of MMIC recommends that you vote FOR the Mutual Holding Company Plan for the following reasons:

### **(1) Mutual-to-Mutual Transactions**

A mutual holding company structure provides MMIC with the ability to merge with other mutual organizations while preserving the separate insurance operations and “brands” of both MMIC and the target organizations, in each case as stock subsidiaries of MIHC. Currently, MMIC cannot merge with other mutual insurance companies without one of the entities terminating its separate existence and identity, even though it might not be in the best interests of MMIC, the other entity, or their respective policyholders to do so.

As an example of this benefit, representatives of MMIC have negotiated the form of the aforementioned Agreement and Plan of Merger with representatives of FNP, which will be executed following (1) regulatory approval of MMIC’s and FNP’s respective mutual holding company plans, (2) creation of the respective mutual holding companies, (3) regulatory approval of the Agreement and Plan of Merger by the Wisconsin Commissioner and the Illinois Department of Insurance, and (4) corporate approval of the Agreement and Plan of Merger by MIHC’s and FNPMHC’s respective boards and the members of FNPMHC. Pursuant to the Agreement and Plan of Merger, MIHC will merge with and into First Nonprofit Mutual Holding Company (“FNPMHC”), the Illinois-domiciled mutual holding company to be created under FNP’s current plan of conversion. FNPMHC will be the surviving corporate entity, but will change its name to “Mutual Insurers Holding Company” (the “Surviving MHC”). Following the merger, the Surviving MHC will own the stock of the two converted stock insurance companies as subsidiaries. For further details on the likely merger involving MIHC and FNPMHC, see *TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY* beginning at page 39.

**The Restructuring and the Special Meeting of Policyholders described herein do not relate to the Agreement and Plan of Merger or any other transaction involving FNP or its affiliates, and you are not being asked at this time, or in connection with the Special Meeting, to consider and vote upon the Agreement and Plan of Merger or any other transaction involving FNP or its affiliates. Any such transaction would be subject to the execution of the Agreement and Plan of Merger, which is itself subject to approval by Illinois and Wisconsin regulatory authorities, as well as approval by the Boards of the respective mutual holding companies and by the members of FNPMHC. You should assume, however, that a vote in favor of the Mutual Holding Company Plan by the Eligible Members will likely result in prompt completion of the Agreement and Plan of Merger transaction.**

### **(2) Maintain Mutuality**

As a mutual, MMIC has adopted a corporate culture and reputation as an entity that focuses on the interests and benefits of its current and future Policyholders, the owners of the Company. MMIC believes that a good portion of its success as an insurance enterprise stems

from this inherent structural tendency to view its business operations and objectives from the perspective of the Policyholder. As such, MMIC wishes to preserve its “mutuality” as much as possible while still being able to compete against its larger stock and/or non-insurer competitors in the marketplace. The proposed Restructuring to a mutual holding company structure enables MMIC to ultimately retain its Policyholder focus by ensuring that the organization is always under the ultimate control of a mutual holding company even as it takes advantage of the corporate and operational flexibility available to a stock enterprise. See *RETENTION OF MUTUAL FORM OF ORGANIZATION* at page 27.

In addition, under Wisconsin law, if MIHC ever decides to sell stock in Converted MMIC, it will be required at all times to retain, directly or indirectly, at least 51% of the shares of voting stock of Converted MMIC (or 51% of the voting stock of any subsidiary intermediate stock holding company it may choose to create in the future), thereby preserving mutuality.

In addition to the foregoing reasons, there are several additional advantages to a mutual holding company structure which other mutual holding companies have identified, and which are applicable to MMIC as well, although MMIC currently has no intention of pursuing these additional advantages.

### **(3) Transactions with Non-Insurers, Diversification**

A mutual holding company structure may ease MMIC’s ability to acquire or affiliate with non-insurers thereby achieving efficiencies of scale and diversification of assets. Under a mutual holding company structure, MMIC would have the ability to respond quickly and decisively to changes in the insurance and financial services marketplace in ways that would not have been available to it as a mutual insurance company. See *ORGANIZATIONAL FLEXIBILITY* at page 28.

### **(4) Stock as an Acquisition Currency**

A mutual holding company structure would enable MMIC to use stock as an acquisition currency, rather than having to rely upon cash alone. Under Wisconsin law, MIHC will have to own at least 51% of the voting stock of Converted MMIC at all times, but the remaining 49% may be sold to the public or used as currency to acquire or affiliate with other insurers or non-insurer entities. While MMIC has no current plans to use the voting stock of Converted MMIC in this manner, the ability to do so increases its options and ability to exploit strategic acquisition opportunities vital to MMIC’s competitiveness.

### **(5) Access to Capital Markets**

A mutual holding company structure would give MMIC the ability to access the capital markets to raise new capital by selling shares of stock of Converted MMIC (or any subsidiary intermediate stock holding company it may choose to create in the future) to the public or to other third parties as the needs occur and as market conditions permit. Such additional equity capital has the potential of increasing the financial strength of Converted MMIC and its parent, MIHC. MMIC does not currently have any plans to raise capital by selling shares of stock or issuing debt securities. However, a mutual holding company structure would put it in a position to do so. See *ACCESS TO CAPITAL MARKETS* at page 19.

## *Consideration of Alternatives*

The alternatives to reorganizing under a mutual holding company structure are for MMIC to either (i) preserve the status quo and remain a mutual insurance company, or (ii) undergo a demutualization.

### **(1) Preserving the Status Quo**

The Board of Directors determined that continuing to operate as a mutual insurance company imposes limits upon MMIC's ability to position itself for long-term growth and to compete effectively. The Board concluded that, in the future, the most successful insurance companies will be those that have the structural, financial and strategic flexibility to respond quickly and decisively to changes in the marketplace, both in terms of pursuing (or defending against) potential acquisition activity and in terms of making changes or improvements in existing operations. The Board also concluded that the importance of flexibility and the ability to move quickly and decisively, particularly in the area of merger and acquisition activities, is further heightened by the recent deregulation of financial services, which introduces new competitors to the market in which MMIC participates and may lead to significant consolidation within and/or between the banking, insurance, and securities industries. The Board believes that if MMIC remains in its current structure as a mutual insurance company, it will have limited means available to it to respond to these changes in the marketplace and to grow or solidify its business operations through acquisition activity and/or the investment of excess surplus.

### **(2) Demutualization**

A demutualization would convert MMIC from a mutual insurance company into a stock insurance company without simultaneously creating a mutual holding company as a parent. There would be certain benefits of a demutualization to MMIC and its Members such as the following:

- Policyholders, as Members of MMIC, would receive cash, stock or other consideration in exchange for their Equity Rights in MMIC.
- Stock of the demutualized company could be used by the demutualized company as acquisition currency.
- The value of MMIC's stock after or associated with a demutualization may be higher than it would be after reorganizing to a mutual holding company structure, insofar as, under Wisconsin law, the mutual holding company will always have to own, directly or indirectly, at least 51% of the shares of Converted MMIC. Public investors may place a lower value on the stock of Converted MMIC as a result of their inability to acquire a controlling interest in the entity.

The Board of Directors concluded, however, that maintaining the "mutuality" of MMIC in some form was important in order to preserve the Company's historical focus on the interests and benefits of its current and future Policyholders. In addition, the Board thought it important that MMIC retain and enhance its ability to merge, acquire or affiliate with other

mutual entities, particularly in ways that preserve the separate insurance operations and “brands” of such organizations, including MMIC. Demutualization is inconsistent with both of these goals, as it terminates MMIC’s existence as a “mutual” organization ultimately owned by its current and future Policyholders, and eliminates MMIC’s practical ability to merge with other mutual insurers (other than through the acquisition of another mutual insurer through the latter’s sponsored demutualization), thus limiting the number of strategic acquisition opportunities available to MMIC. Other potential disadvantages of demutualization as an alternative to the mutual holding company structure include the following:

- Demutualization may be a less efficient way to raise capital. Under a demutualization, MMIC would be required to distribute cash, stock or other forms of consideration to Policyholders in exchange for their Equity Rights in MMIC.
- Under the proposed mutual holding company structure, control of the insurance company remains, at least indirectly, with the Members of MMIC. Under a demutualization, Members who acquire shares of stock in exchange for their Equity Rights will continue to have voting rights in the demutualized company, but other persons besides Members may acquire shares of stock in the entity and/or become the controlling stockholders.
- Historically, demutualizations are more difficult to structure, more time consuming and more expensive than mutual holding company reorganizations.

**It is also worth noting that the Mutual Holding Company Plan does not preclude a future demutualization of MIHC, the mutual holding company parent. However, no such demutualization is currently contemplated, and a demutualization may never occur.**

*Recommendation of Board of Directors*

**ON MAY 17, 2001, THE BOARD OF DIRECTORS OF MMIC UNANIMOUSLY ADOPTED THE MUTUAL HOLDING COMPANY PLAN. AS REQUIRED BY CHAPTER 644 OF THE WISCONSIN INSURANCE CODE, THE BOARD SUBMITTED THE PLAN TO THE WISCONSIN COMMISSIONER FOR REVIEW AND APPROVAL. THE WISCONSIN COMMISSIONER CONDUCTED AND PRESIDED OVER A PUBLIC HEARING ON THE PLAN ON \_\_\_\_\_, 2001. THE WISCONSIN COMMISSIONER APPROVED THE PLAN ON \_\_\_\_\_, 2001.**

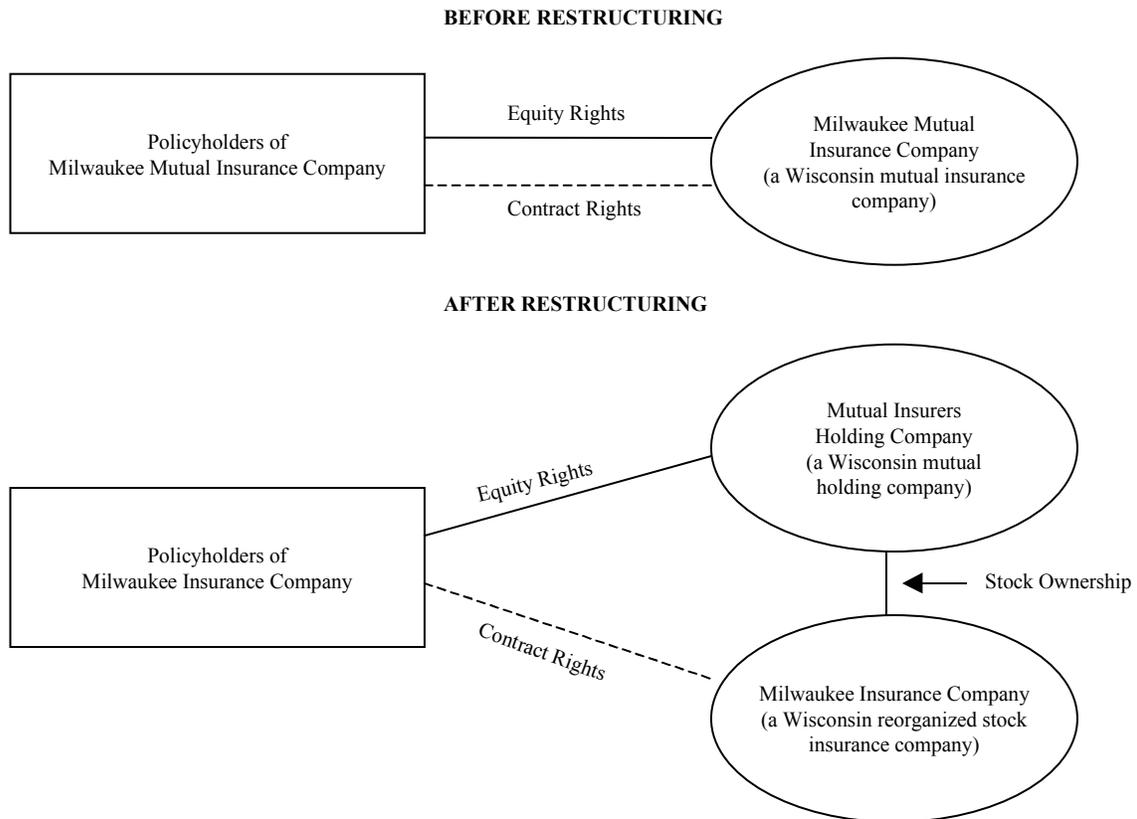
**THE BOARD OF DIRECTORS OF MMIC UNANIMOUSLY RECOMMENDS THAT ELIGIBLE MEMBERS OF MMIC VOTE “FOR” APPROVAL AND ADOPTION OF THE MUTUAL HOLDING COMPANY PLAN AT THE SPECIAL MEETING.**

*Description of the Restructuring*

On or before the Effective Date of the Restructuring, MMIC will form and incorporate MIHC as a Wisconsin mutual holding company. On the Effective Date, Policyholders with Membership Interests in MMIC will immediately become Members of MIHC. MMIC will convert to, and continue its corporate existence as, a Wisconsin stock

property and casualty insurance company. MIHC will be issued 100% of the shares of voting stock of Converted MMIC. All Equity Rights in MMIC previously belonging to Policyholders with Membership Interests in MMIC will be extinguished and replaced with Equity Rights in MIHC. As a result of the Restructuring, Converted MMIC will exist as a stock insurance company subsidiary of MIHC.

The following diagrams illustrate MMIC’s organizational structure before and after consummation of the Restructuring contemplated by the Mutual Holding Company Plan:



For additional details concerning the Restructuring, see *DESCRIPTION OF THE RESTRUCTURING* at page 22.

*Effects of the Restructuring*

The Restructuring will have the following effects upon MMIC and its Members/Policyholders:

**(1) Operations and Business of MMIC**

The Restructuring will not result in any material changes in MMIC’s existing insurance operations or its services to Policyholders, except that such operations and services will in the future be conducted or provided by a stock insurance company rather than a mutual

insurance company. In addition, the Restructuring of MMIC into a stock insurance subsidiary of MIHC shall in no way annul, modify or change any of MMIC's existing suits, rights, property interests, contracts or liabilities, except with respect to the extinguishing and replacement of Equity Rights as described below.

## **(2) Effect Upon Contract Rights and Equity Rights of MMIC Policyholders**

Currently, Members of MMIC have both Contract Rights as Policyholders of the Company and Equity Rights as Members of the Company. Upon Restructuring, a Member's Contract Rights and Equity Rights will effectively be separated, as further explained below.

The principal Contract Right is the right to receive the type and amount of insurance coverage specified in a Member's Policy (or Policies) in accordance with the terms and provisions thereof, including the right to dividends or refunds of premiums as, if and when declared by the Board. On the Effective Date, the Contract Rights of Members will remain with Converted MMIC. Every Policy that has been issued by MMIC which is In Force on the Effective Date will remain in force at the Effective Date and continue as a Policy of Converted MMIC. The premiums currently required to be paid as specified in the Policies will not be increased or otherwise changed as a result of the Restructuring. It is the intention of MMIC that its current policies with respect to dividends or refunds of premiums to Policyholders will not be affected by the Restructuring.

The principal Equity Rights of Members of MMIC are as follows:

- The right to elect the directors of MMIC;
- The right to approve or disapprove proposed changes in the Articles of Incorporation of MMIC;
- The right to vote (or grant proxies to vote) on any plan of conversion, voluntary dissolution or such other matters as may come before the Members at an annual or special meeting of MMIC's Members;
- The right to receive and/or share in any distribution of, or to receive consideration based upon, the remaining surplus, if any, of MMIC in the event of MMIC's ultimate dissolution and liquidation (which means, if MMIC were to become insolvent or go out of business); and
- The right to receive cash, stock or such other consideration as is approved by the Wisconsin Commissioner in exchange for the Members' Equity Rights in the event of the demutualization of MMIC (which would require approval by the Board and the Members and by the Wisconsin Commissioner).

On the Effective Date, the foregoing Equity Rights of Members of MMIC shall be automatically transferred to MIHC. Members will not receive any cash, stock or other consideration in exchange for their Equity Rights in MMIC. Rather, the Members' Equity Rights in MMIC will be extinguished and replaced with Equity Rights in MIHC, and the Equity Rights in MIHC will be identical to those set forth above with respect to MMIC, except that they

shall be exercised with respect to the operations of MIHC and not those of MMIC or Converted MMIC. The Board of Directors of MIHC, representing the interests of Policyholders, will exercise voting control over the election of directors of Converted MMIC and over other matters pertaining to the governance of Converted MMIC. Holders of Policies issued by Converted MMIC on or after the Effective Date will automatically become Members of MIHC.

### **(3) Directors and Executive Officers**

On the Effective Date of the Restructuring, it is intended that the separate Boards of Directors of MIHC and Converted MMIC will each consist of the same nine (9) directors that currently comprise the Board of Directors of MMIC. It is also intended that the Executive Officers of both MIHC and Converted MMIC will be the same individuals currently serving in those positions for MMIC. For information regarding the current directors and executive officers of MMIC, and the proposed directors and executive officers of MIHC and Converted MMIC, see *DIRECTORS AND OFFICERS OF MMIC, CONVERTED MMIC AND MIHC* at page 36.

### **(4) Corporate Governance**

After the Restructuring, Converted MMIC will operate under the direction of its Board of Directors and all voting rights, including the election of the Board of Directors of Converted MMIC, will be vested exclusively in the holder(s) of its outstanding voting stock; specifically, MIHC. Moreover, under Wisconsin law, MIHC must retain ownership, directly or indirectly, of at least 51% of the voting stock of Converted MMIC at all times. Accordingly, MIHC will have voting control over the outcome of most matters presented to the stockholders of Converted MMIC for resolution by vote, including the election of the Board of Directors for Converted MMIC. MIHC will operate under the direction of its Board of Directors and all voting rights, including the election of the Board of Directors of MIHC, will be vested exclusively in the Policyholders of Converted MMIC who become Members of MIHC. These Members will be entitled to vote on all matters requiring action by the Members, including the election of the directors of MIHC.

### **(5) Potential Sale of Stock of Subsidiaries**

Converted MMIC, or any subsidiary intermediate holding company created by MIHC after the Restructuring, may issue new shares of capital stock or debt securities to the public or other third parties. Under Wisconsin law, however, MIHC will have to own at least 51% of the voting stock of Converted MMIC or any subsidiary intermediate holding company created by MIHC, and thereby will maintain voting control of the same. No shares of capital stock or debt securities will be issued or sold concurrently with the Restructuring and there are no current plans for such activity in the future.

### **(6) Federal Tax Consequences**

The consummation of the Restructuring is subject to the condition that MMIC obtain either a private letter ruling issued by the IRS or an opinion of Foley & Lardner or other independent tax counsel to MMIC, in either case substantially to the effect that MMIC, MIHC, and/or MMIC's Policyholders will not recognize gain or loss for U.S. federal income tax purposes in connection with the conversion of MMIC from a mutual insurance company to a

stock insurance company, the formation of MIHC, and the contribution of the stock of Converted MMIC to MIHC.

For further details regarding any of the foregoing effects of the Restructuring, see *EFFECTS OF THE RESTRUCTURING* at page 23.

#### *Voting Considerations and Risk Factors*

In addition to the benefits of the mutual holding company structure and the pros and cons of the alternatives discussed above, you should consider certain risks and other factors involved in adopting a mutual holding company structure, including the following:

#### **(1) Movement of Subsidiaries and Other Assets.**

The mutual holding company structure permits the realignment of subsidiaries of MMIC, and the transfer of other assets out of MMIC to one or more affiliates, provided such movement is approved by the Wisconsin Commissioner and consistent with Wisconsin law. It is possible that sometime in the future a realignment of subsidiaries may occur either by sale, or as an ordinary or extraordinary dividend or otherwise, as the case may be. There can be no assurances that any future transfers of assets, including an ordinary or extraordinary dividend or realignment of subsidiaries, would not be detrimental to the financial condition of MMIC, although any material transaction would likely require regulatory approval.

#### **(2) Issuance of Stock to Third Parties**

At present, Policyholders have the right to elect the Board of Directors of MMIC and to vote on all other corporate matters presented to them for a vote. On the Effective Date, MIHC will directly or indirectly own all of the outstanding voting stock of Converted MMIC. However, either Converted MMIC, or a subsidiary intermediate holding company subsequently created by MIHC to hold the stock of Converted MMIC (an “intermediate holding company”) could issue voting securities to the public or to other third parties, subject to approval by the Wisconsin Commissioner. The result of any such stock issuance or sale would be that such subsidiary would receive the proceeds of the sale, which would thereby increase its assets and stockholders’ equity, but MIHC – and indirectly, the Members of MIHC – would then control less than 100% of the voting stock of such subsidiary. However, MIHC by law is required at all times to maintain direct or indirect voting control of Converted MMIC. MMIC has no current plans to issue stock to third parties.

#### **(3) Potential Conflicts between Interests of Policyholders and Shareholders**

The current duties and obligations of the Board of Directors of MMIC is to act in the best interests of its Members, who are the Policyholders of MMIC. After the Restructuring, the duties and obligations of the Board of Directors of MIHC will be to act in the best interests of these same Members and Policyholders, and those which become Members and Policyholders after the Restructuring. If, however, Converted MMIC decides to undertake an initial public offering or other issuance of stock, the obligations and duties of the Board of Directors of Converted MMIC will extend to outside investors in addition to the Members of MIHC. This would also be true if a subsidiary intermediate holding company were organized in the future and

shares of stock of the subsidiary were sold to the public or to other third parties. Accordingly, there may be some potential for the development of conflicting interests between the Members of MIHC and the shareholders of Converted MMIC or any subsidiary intermediate holding company (collectively, the “Shareholders”). One potential conflict would be between the interests of Policyholders of Converted MMIC in receiving insurance at the lowest cost possible and the interests of Shareholders in receiving the highest return on their investment. Additionally, there may be conflicts over how the growth of, and profit from, Converted MMIC’s business should be apportioned between the Policyholders and the Shareholders. However, MIHC, representing the Policyholders, would remain the majority voting shareholder with ultimate voting control, directly or indirectly, over Converted MMIC.

#### **(4) Market Conditions**

Any future decision to issue capital stock or debt securities would depend upon, among other factors, the then-current needs of the organization for additional capital, then-prevailing market conditions, the financial performance and business prospects of the organization, and the interests of the Members of MIHC. There can be no assurance as to if, when, or on what terms any such capital raising efforts would take place.

#### **(5) Issuance of Debt**

A mutual insurance company may issue debt in the form of surplus notes. Generally, payments of either principal or interest on surplus notes may not be made without consent of the Wisconsin Commissioner. A mutual company is often limited directly by regulatory bodies as to the amount of surplus notes which may be issued in relation to the issuer’s other surplus. Under the proposed mutual holding company structure, MIHC or any subsidiary could issue debt in forms other than surplus notes. Unlike surplus notes, no approval of the Wisconsin Commissioner would be required to pay principal or interest on such debt. The mutual holding company complex could become financially leveraged to a greater extent than is now the case. No assurances can be given that such additional leverage would not be detrimental to the financial solvency or ratings of MIHC or Converted MMIC.

#### **(6) No Fairness Opinion from an Investment Banker**

In connection with its approval of the Plan, the Board of Directors did not receive a fairness opinion of an investment banker. No opinion was necessary in this case because, among other reasons (a) no initial public offering is being undertaken or is presently contemplated, (b) any initial stock offering would require the approval of the Wisconsin Commissioner, and (c) the Plan is generally similar to plans for forming mutual holding companies which have been approved and adopted in other states.

#### **(7) Possible Litigation**

There can be no assurance that adoption of the Plan will not result in litigation. Certain mutual insurance companies that have reorganized or proposed to reorganize to a mutual holding company structure have been sued by certain policyholders alleging that such a structure, although expressly authorized by statute, is unfair to policyholders. Litigation can be costly and time consuming and could result in a diversion of effort and resources by MMIC’s management.

MMIC believes it has complied with applicable law, and the Board believes that the Restructuring is fair and equitable to Policyholders and expects that the Restructuring will benefit Policyholders and will not be contrary to their interests or the interests of the Wisconsin public.

**(8) Differences in Insolvency Laws**

A Wisconsin mutual insurer, such as MMIC, is subject to the jurisdiction of the Wisconsin Commissioner in the event of the insolvency of the Company. While it is not clear, a Wisconsin mutual holding company may be under the jurisdiction of the federal bankruptcy laws. There can be no assurance that federal bankruptcy laws will not reduce the priority (if any) of the claims of Policyholders of MMIC, or preempt Wisconsin law and/or make it difficult for the Wisconsin Commissioner to recover assets of the mutual holding company for the benefit of the Policyholders of MMIC.

**(9) Change in Regulations**

Certain activities that are regulated by the Wisconsin Commissioner under the present structure may not be regulated, or may be regulated differently, under the mutual holding company structure. Uncertainty in this area is heightened by the fact that there has not been a Wisconsin mutual insurance company that has completed a mutual holding company restructuring in Wisconsin. Furthermore, depending on its future business activities, MIHC may become subject to various federal laws and come under the authority of federal regulators. If the interests of federal regulators and state insurance regulators conflict, Members' Equity Rights in MIHC could be adversely affected.

**(10) Absence of Implementing Regulations**

The Wisconsin Insurance Code provides that the Wisconsin Commissioner may issue regulations to implement the mutual holding company laws set forth in Chapter 644 of the Wisconsin Insurance Code and establish applicable procedures thereunder. Although no regulations or procedures have been promulgated to date, the Wisconsin Commissioner may at some future point propose and/or promulgate regulations or procedures that may adversely affect MIHC and/or its Members. Converted MMIC Policyholders will receive Equity Rights in MIHC that may be subject to different insurance regulatory oversight than an insurance company. There can be no assurances that any regulations adopted by the Wisconsin Commissioner will not affect MMIC's Mutual Holding Company Plan, including its conditions as to effectiveness and the contemplated timing for consummation of the Mutual Holding Company Plan.

**(11) Reliance on Management**

The success of Converted MMIC's strategy will depend, in large part, upon the skill and judgment of its management. While past performance does not assure future success, MMIC's management believes that it has consistently demonstrated high levels of skill and judgment in managing the operations and affairs of the Company for the benefit of Policyholders.

### *Special Meeting of Members*

MMIC will hold a Special Meeting on \_\_\_\_\_, 2001 at \_\_\_\_:\_\_\_\_.m., Central Time, at the law offices of Foley & Lardner, 777 East Wisconsin Avenue, 40<sup>th</sup> Floor, Milwaukee, Wisconsin. At the Special Meeting, Eligible Members will be asked to consider and vote upon a proposal to approve and adopt the Mutual Holding Company Plan and to consider and vote upon all other matters as they may properly come before the meeting. If you are listed as a Policyholder of MMIC based on MMIC's records as of the Resolution Date and your Policy (or Policies) was In Force as of the Record Date, you will be entitled to one vote regarding the Mutual Holding Company Plan. Each Eligible Member shall be entitled to vote either by ballot made in person at the Special Meeting, or by proxy. The affirmative vote of at least a majority of the Eligible Members present in person or by valid proxy at the Special Meeting is required to approve the Mutual Holding Company Plan. Proxies must be received by 5:00 p.m., Central Time, on \_\_\_\_\_, 2001 in order to be counted. The Special Meeting requires a quorum of at least ten (10) Eligible Members present in person.

### *Conditions to Closing of Restructuring*

The consummation of the Restructuring contemplated by the Mutual Holding Company Plan is subject to the prior satisfaction of several conditions, including (i) approval by the Eligible Members of MMIC, (ii) receipt of a satisfactory private letter ruling from the Internal Revenue Service or a tax opinion from Foley & Lardner or other independent legal counsel, (iii) receipt of a satisfactory "no action" letter from the Securities and Exchange Commission or a securities opinion from Foley & Lardner or other independent legal counsel, (iv) the issuance by the Wisconsin Commissioner of a new certificate of authority to Converted MMIC and a certificate of incorporation to MIHC, and (v) the satisfaction of all conditions precedent to FNP's restructuring to a mutual holding company structure (see *TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY* at page 39); provided, however, that this latter condition may be waived at the discretion of the Board of Directors of MMIC.

## **THE RESTRUCTURING**

### *Introduction*

The following is a more detailed description of certain aspects of the Restructuring, including the material provisions of the Mutual Holding Company Plan. This description is qualified in its entirety by reference to the other information contained elsewhere herein, including the Attachments hereto and the documents incorporated by reference herein. A full text of the Plan, as well as the exhibits thereto, are attached hereto as Attachment A.

The Board of Directors unanimously approved the Mutual Holding Company Plan on May 17, 2001. After holding a public hearing on the Plan, the Wisconsin Commissioner approved the Plan on \_\_\_\_\_, 2001. The Plan will not become effective until all of the closing conditions are satisfied. See *CONDITIONS TO CLOSING OF RESTRUCTURING* at page 35.

## *Background of MMIC*

MMIC is a property and casualty mutual insurance company based in Brookfield, Wisconsin. MMIC provides both personal and commercial lines coverages through independent agencies. MMIC's personal lines products include auto, homeowners and umbrella insurance, and its commercial products include commercial package policies (combining insurance for both property and liability exposures arising out of the property), workers' compensation insurance, commercial auto and commercial umbrella. MMIC is licensed in Arizona, Colorado, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, North Dakota, Ohio, South Dakota and Wisconsin, and over 90% of its business is generated in five states -- Wisconsin, Illinois, Minnesota, South Dakota and Indiana. MMIC's current A.M. Best rating is A+.

The Company was originally organized in 1916 as Milwaukee Automobile Insurance Company Limited Mutual Exchange, and commenced business in 1917. The name of the company was changed to Milwaukee Automobile Mutual Insurance Company in 1955, and the name was changed to its current form in 1964. MMIC has absorbed three other mutual insurers by way of merger over the course of its existence: Wisconsin Retailers Mutual Fire Insurance Company Ltd. (in 1970), Midland Union Mutual Insurance Company (in 1981), and Heartland Mutual Insurance Company (in 1995).

On October 2, 1995, Trinity Universal Insurance Company ("Trinity"), a subsidiary of Unitrin, Inc., acquired 100% ownership of Milwaukee Insurance Group, Inc. ("MIG"), a publicly traded holding company that was 48% owned by MMIC. Prior to the acquisition, MMIC participated in an intercompany reinsurance pooling arrangement (originally effective January 1, 1985) with two MIG subsidiaries, Milwaukee Guardian Insurance, Inc. and Milwaukee Safeguard Insurance Company. Under the terms of the pooling arrangement, the combined premiums, losses, and expenses of the three insurers were prorated between the insurers. MMIC's participation in the pooling arrangement varied over time, beginning at 76% in 1985, declining to 60% between 1987 and 1993, 40% between 1993 and 1995, and 5% for the time period between October 2, 1995 and December 31, 1996. As of January 1, 1997, the pooling arrangement was commuted effective October 2, 1995 and replaced by a reinsurance agreement pursuant to which Trinity reinsures 95% of MMIC's insurance business.

## *Challenges Facing MMIC in its Current Organizational Form*

MMIC's Board of Directors believes that, in the future, the most successful insurance companies will be those that have the structural, financial and strategic flexibility to respond quickly and decisively to changes in the marketplace, both in terms of pursuing (or defending against) potential acquisition activity and in terms of making changes or improvements in existing operations. The importance of flexibility and the ability to move quickly and decisively, particularly in the area of merger and acquisition activities, is further heightened by the recent deregulation of financial services, which introduces new competitors to the market in which MMIC participates and may lead to significant consolidation within and/or between the banking, insurance, and securities industries.

In its current structure as a mutual insurance company, MMIC has limited options for responding to changes in the marketplace and to grow or solidify its business operations

through acquisition activity and/or the investment of excess surplus. For example, MMIC cannot merge with other mutual insurers without one of the two entities ceasing to exist as a separate insurer. This prevents MMIC from merging, acquiring or affiliating with other mutual organizations in ways that allow for improved efficiencies and which maintain each organization's goodwill and the value of their respective "brands." There are also limitations upon MMIC's ability to acquire or affiliate with non-insurers. The foregoing restrictions lessen MMIC's ability to put its excess surplus to more efficient use and to be a "first mover" during market consolidation. Collectively, these difficulties burden MMIC with sub-optimal positioning for long-term growth.

In addition, MMIC's current structure as a mutual insurance company means that it has no stock to use as acquisition currency and limited ability to raise new capital. While MMIC has no current need to raise new capital and has no immediate plans to access the capital markets or otherwise obtain additional capital following the Restructuring, there is always the possibility – particularly in an environment of consolidation and increased competition – that a need for new capital may arise in the future. At present, MMIC can increase its statutory capital only by increasing premiums, retaining earnings, issuing surplus notes, engaging in financial reinsurance transactions or selling assets. These financing options are limited as reliable sources of permanent capital: Premium increases are difficult to impose in times of increased competition, earnings vary from year-to-year, surplus notes and reinsurance are often costly, and assets available for sale are finite and, in some cases, critical to MMIC's financial strength and its continuing operations.

MMIC is confronted with these structural limitations during a period of significant change in the insurance and financial services marketplaces, change that will have continuing effects on its business operations. Technological changes force many insurers to invest in new products and technologies designed to meet customer needs and expectations, and to do so at much faster rates than had previously been the case. Strong financial and claims-paying ratings are critical to an insurer's success and are increasingly dependent upon the insurer's ability to achieve high levels of profitable growth. Further, due to deregulation of the financial services industries, insurers face increased competition from banks, mutual funds and retail brokerage firms.

### *Benefits of Restructuring to a Mutual Holding Company Structure*

Recognizing the foregoing structural limitations confronting mutual insurers, as well as the value of providing options for addressing those difficulties in ways that preserve the mutual form of organization, a number of states (including Wisconsin) have passed mutual holding company laws, whereby a mutual insurance company can reorganize into a stock insurance company that is owned by a non-insurance mutual holding company. The proposed Restructuring to a mutual holding company format presents several benefits to MMIC and its Policyholders.

#### **(1) Mutual-to-Mutual Transactions**

A mutual holding company structure provides MMIC with the ability to merge with other mutual organizations while preserving the separate insurance operations and "brands"

of both MMIC and the target organizations as stock subsidiaries of MIHC. As indicated above, prior to the passage of mutual holding company laws, MMIC could not merge with other mutual insurance companies without one of the entities terminating its separate existence and identity, even where it might not be in the best interests of MMIC or the other entity to do so.

As an example of this benefit, representatives of MMIC have negotiated the form of the aforementioned Agreement and Plan of Merger with representatives of FNP, which will be executed following (1) regulatory approval of MMIC's and FNP's respective mutual holding company plans, (2) creation of the respective mutual holding companies, (3) regulatory approval of the Agreement and Plan of Merger by the Wisconsin Commissioner and the Illinois Department of Insurance, and (4) corporate approval of the Agreement and Plan of Merger by MIHC's and FNPMHC's respective boards and the members of FNPMHC. Pursuant to the Agreement and Plan of Merger, MIHC will merge with First Nonprofit Mutual Holding Company ("FNPMHC"), the Illinois-domiciled mutual holding company to be created under FNP's current plan of conversion. FNPMHC will be the surviving corporate entity, but will change its name to "Mutual Insurers Holding Company" (the "Surviving MHC"). Following the merger, the Surviving MHC will own the stock of the two converted stock insurance companies as subsidiaries. For further details on the likely merger involving MIHC and FNPMHC, see *TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY* at page 39.

## **(2) Maintain Mutuality**

As a mutual, MMIC has adopted a corporate culture and reputation as an entity that focuses on the interests and benefits of its current and future Policyholders, the owners of the Company. MMIC believes that a good portion of its success as an insurance enterprise stems from this inherent structural tendency to view its business operations and objectives from the perspective of the Policyholder. As such, MMIC wishes to preserve its "mutuality" as much as possible while still being able to compete against its larger stock and/or non-insurer competitors in the marketplace. The proposed Restructuring to a mutual holding company structure enables MMIC to ultimately retain its Policyholder focus by ensuring that the organization is always under the control of a mutual holding company, yet allows MMIC to obtain the corporate and operational flexibility available to a stock enterprise. See *POTENTIAL TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY* at page 39.

In addition, under Wisconsin law, if MIHC ever decides to sell stock in Converted MMIC, it will be required at all times to retain, directly or indirectly, at least 51% of the shares of voting stock of Converted MMIC (or 51% of the voting stock of any subsidiary intermediate stock holding company it may choose to create in the future), thereby preserving mutuality.

In addition to the foregoing reasons, there are several additional advantages to a mutual holding company structure which other mutual holding companies have identified, and which are applicable to MMIC as well, although MMIC currently has no intention of pursuing these additional advantages.

### **(3) Transactions with Non-Insurers, Diversification**

A mutual holding company structure may ease MMIC's ability to acquire or affiliate with non-insurers, thereby achieving efficiencies of scale and diversification of assets. Under a mutual holding company structure, MMIC would have the ability to respond quickly and decisively to changes in the insurance and financial services marketplace in ways that would not have been available to it as a mutual insurance company. See *ORGANIZATIONAL FLEXIBILITY* at page 28.

### **(4) Stock as an Acquisition Currency**

A mutual holding company structure would enable MMIC to use stock as an acquisition currency, rather than having to rely upon cash alone. Under Wisconsin law, MIHC will have to own, directly or indirectly, at least 51% of the voting stock of Converted MMIC at all times, but the remaining 49% may be sold to the public or used as currency to acquire or affiliate with other insurers or non-insurer entities. While MMIC has no current plans to use the voting stock of Converted MMIC in this manner, the ability to do so increases its options and ability to exploit strategic acquisition opportunities vital to MMIC's competitiveness.

### **(5) Access to Capital Markets**

A mutual holding company structure would give MMIC the ability to access the capital markets to raise new capital by selling shares of stock of Converted MMIC (or any subsidiary intermediate stock holding company it may choose to create in the future) to the public or to other third parties as the needs occur and as market conditions permit. Such additional equity capital has the potential of increasing the financial strength of Converted MMIC and its parent, MIHC, which could in turn enhance MMIC's capability and flexibility to do the following:

- Maintain, or possibly increase, its ratings from rating agencies;
- Invest in infrastructure, including computer enhancements, to increase operational efficiency and provide improved services to Policyholders, thereby increasing MMIC's ability to compete more effectively in the marketplace;
- Expand distribution channels for current products and services;
- Expand into new markets or product lines; and
- Take advantage of opportunities to acquire other companies or books of business, thereby increasing economies of scale and diversification of assets.

MMIC does not currently have any plans to raise capital by selling shares of stock or issuing debt securities. However, a mutual holding company structure would put it in a position to do so. Future consideration of any such sale of stock or issuance of debt securities of any company within the mutual holding company structure would depend upon many factors, including without limitation the then-current needs of the organization for additional capital, the interests of the Members of MIHC, prevailing investment market conditions and the financial

performance and business prospects of the organization as a whole. There can be no assurance as to if or when any such capital raising efforts would take place or if they do, whether they would be on attractive terms or provide substantial benefits to MIHC and its subsidiaries, including Converted MMIC.

### *Consideration of Alternatives*

The alternatives to reorganizing under a mutual holding company structure are for MMIC to either (i) preserve the status quo and remain a mutual insurance company, or (ii) undergo a demutualization.

#### **(1) Preserving the Status Quo**

The Board of Directors determined that continuing to operate as a mutual insurance company imposes limits upon MMIC's ability to position itself for long-term growth and to compete effectively. See *CHALLENGES FACING MMIC IN ITS CURRENT ORGANIZATIONAL FORM* at page 16. The Board concluded that, in the future, the most successful insurance companies will be those that have the structural, financial and strategic flexibility to respond quickly and decisively to changes in the marketplace, both in terms of pursuing (or defending against) potential acquisition activity and in terms of making changes or improvements in existing operations. The Board also concluded that the importance of flexibility and the ability to move quickly and decisively, particularly in the area of merger and acquisition activities, is further heightened by the recent deregulation of financial services, which introduces new competitors to the market in which MMIC participates and may lead to significant consolidation within and/or between the banking, insurance, and securities industries. The Board believes that if MMIC remains in its current structure as a mutual insurance company, it will have limited means available to it for responding to these changes in the marketplace and to grow or solidify its business operations through acquisition activity and/or the investment of excess surplus.

#### **(2) Demutualization**

A demutualization would convert MMIC from a mutual insurance company into a stock insurance company without simultaneously creating a mutual holding company as a parent. There would be certain benefits of a demutualization to MMIC and its Members such as the following:

- Policyholders, as Members of MMIC, would receive cash, stock or other consideration in exchange for their Equity Rights in MMIC.
- Stock of the demutualized company could be used by the demutualized company as acquisition currency.
- The value of the Company's stock after or associated with a demutualization may be higher than it would be after reorganizing to a mutual holding company structure, insofar as, under Wisconsin law, the mutual holding company will always have to own, directly or indirectly, at least 51% of the shares of Converted MMIC. Investors may place a lower value on the stock of Converted MMIC as a

result of the inability for outside investors to obtain or purchase ultimate control of the entity.

The Board of Directors concluded, however, that maintaining the “mutuality” of MMIC in some form was important in order to preserve the Company’s historical focus on the interests and benefits of its current and future Policyholders. See *MAINTAIN MUTUALITY* at page 18. In addition, the Board thought it important that MMIC retain and enhance its ability to merge, acquire or affiliate with other mutual entities, particularly in ways that preserve the separate insurance operations and “brands” of such organizations, including MMIC. See *MUTUAL-TO-MUTUAL TRANSACTIONS* at page 17. Demutualization is inconsistent with both of these goals, as it terminates MMIC’s existence as a “mutual” organization ultimately owned by its current and future Policyholders, and eliminates MMIC’s practical ability to merge with other mutual insurers (other than through the acquisition of another mutual insurer in a sponsored demutualization), thus limiting the number of strategic acquisition opportunities available to MMIC. Other potential disadvantages of demutualization as an alternative to the mutual holding company structure include the following:

- Demutualization may be a less efficient way to raise capital. Under a demutualization, MMIC would be required to distribute cash, stock or other forms of consideration to Policyholders in exchange for their Equity Rights in MMIC.
- Under the proposed mutual holding company structure, control of the insurance company remains, at least indirectly, with the Members of MMIC. See *RETENTION OF MUTUAL FORM OF ORGANIZATION* at page 27. Under a demutualization, Members who acquire shares of stock in exchange for their Equity Rights will continue to have voting rights in the demutualized company, but other persons besides Members may acquire shares of stock in the entity and/or become the controlling stockholders.
- Historically, demutualizations are more difficult to structure, more time consuming and more expensive than mutual holding company reorganizations.

**It is also worth noting that the Mutual Holding Company Plan does not preclude a future demutualization of MIHC, the mutual holding company parent. However, no such demutualization is currently contemplated, and a demutualization may never occur.**

#### *Recommendation of Board of Directors*

The Board of Directors of MMIC unanimously adopted the Mutual Holding Company Plan and approved the transactions contemplated thereby. It is submitting the Plan to a vote of the Eligible Members after careful review and consideration, including advice from the Company’s outside legal counsel. The Board believes that the Restructuring is fair and equitable to Policyholders, and the Board expects that the Restructuring will benefit Policyholders and will not be contrary to their interests or the interests of the Wisconsin public. The Board also believes that the Plan complies with the requirements of the Wisconsin Insurance Code for a conversion of a mutual insurance company to a mutual holding company structure.

As required by Chapter 644 of the Wisconsin Insurance Code, the Board submitted the Plan to the Wisconsin Commissioner for review and approval. The Wisconsin Commissioner conducted and presided over a public hearing on the Plan on \_\_\_\_\_, 2001. The Wisconsin Commissioner approved the Plan on \_\_\_\_\_, 2001.

**THE BOARD OF DIRECTORS OF MMIC UNANIMOUSLY RECOMMENDS THAT ELIGIBLE MEMBERS OF MMIC VOTE “FOR” APPROVAL AND ADOPTION OF THE MUTUAL HOLDING COMPANY PLAN AT THE SPECIAL MEETING.**

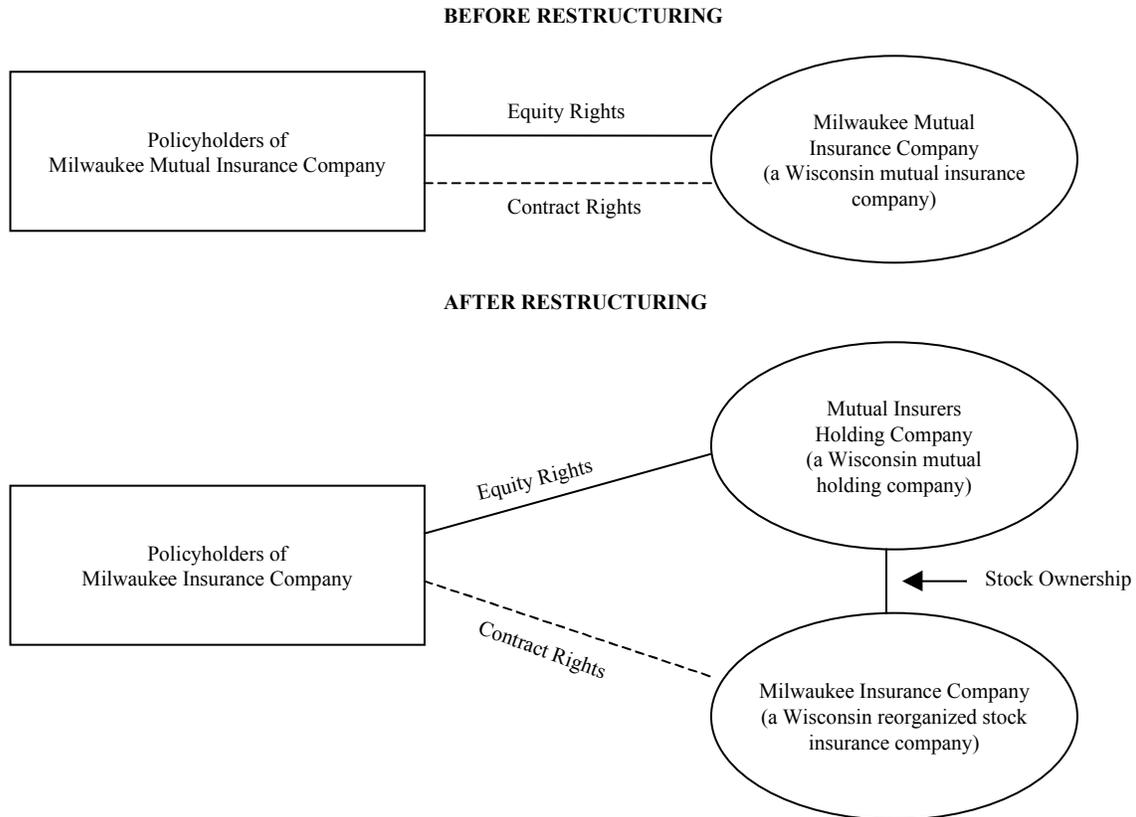
*Description of the Restructuring*

On or before the Effective Date of the Restructuring, MMIC shall duly form and incorporate MIHC as a Wisconsin mutual holding company. As of 12:01 a.m. on the Effective Date, and in accordance with the terms of the Mutual Holding Company Plan and Chapter 644 of the Wisconsin Insurance Code, the following will occur:

- The Policyholders with Membership Interests in MMIC will immediately become Members of MIHC.
- MMIC will convert to, and continue its corporate existence as, a Wisconsin stock property and casualty insurance company, referred to herein as Converted MMIC.
- MIHC will be issued 100% of the shares of voting stock of Converted MMIC.
- All Equity Rights previously belonging to Policyholders with Membership Interests in MMIC will be extinguished and replaced with Equity Rights in MIHC.

As part of the Restructuring, MMIC shall change its name to “Milwaukee Insurance Company.” The Converted MMIC, renamed “Milwaukee Insurance Company,” shall be considered to have been organized at the time that MMIC was organized, such that the corporate existence of MMIC before, on and after the Effective Date shall continue without interruption in all respects and shall remain unaffected by the Restructuring.

The following diagrams illustrate MMIC’s organizational structure before and after consummation of the Restructuring contemplated by the Mutual Holding Company Plan:



On the Effective Date, the articles of incorporation and bylaws of MMIC shall, without further act or deed, be amended and restated as “Amended and Restated Articles of Incorporation of Milwaukee Insurance Company” and “Amended and Restated Bylaws of Milwaukee Insurance Company,” as set forth in documents attached to the Plan as Exhibits A and B, respectively. These revised articles and bylaws shall supersede in their entirety the current articles and bylaws of MMIC. On the Effective Date, the articles of incorporation of MIHC shall be as set forth in the articles of incorporation attached to the Mutual Holding Company Plan as Exhibit C, and the bylaws of MIHC shall be as set forth in the bylaws attached to the Plan as Exhibit D.

*Effects of the Restructuring*

The Restructuring will have the following effects upon MMIC and its Members/Policyholders:

**(1) Operations and Business of MMIC**

It is anticipated that the Restructuring will not result in any material changes in MMIC’s existing insurance operations or its services to Policyholders, except that such operations and services will in the future be conducted or provided by a stock insurance company rather than a mutual insurance company. After the Restructuring, Converted MMIC will continue to be subject to the Wisconsin Insurance Code and to regulation and examination

by the Wisconsin Commissioner and those states and foreign jurisdictions in which it is authorized to transact business. In addition, the Restructuring of MMIC into a stock insurance subsidiary of MIHC shall in no way annul, modify or change any of MMIC's existing suits, rights, property interests, contracts or liabilities, except with respect to the extinguishing and replacement of Equity Rights as described herein. Converted MMIC shall exercise all of the rights and powers and perform all of the duties conferred or imposed by law upon insurers writing the classes of insurance written by MMIC before the Effective Date, and shall retain the rights and contracts existing prior to the Effective Date, except with respect to the extinguishing and replacement of Equity Rights as described herein.

## **(2) Effect Upon Contract Rights and Equity Rights of MMIC Policyholders**

Currently, Members of MMIC have both Contract Rights as Policyholders of the Company and Equity Rights as Members of the Company. Upon Restructuring, a Member's Contract Rights and Equity Rights will effectively be separated, as further explained below.

The principal Contract Right is the right to receive the type and amount of insurance coverage specified in a Member's Policy (or Policies) in accordance with the terms and provisions thereof, including the right to dividends or refunds of premiums as, if and when declared by the Board. On the Effective Date, the Contract Rights of Members will remain with Converted MMIC. Every Policy that has been issued by MMIC which is In Force on the Effective Date will remain in force at the Effective Date and continue as a Policy of Converted MMIC. The premiums currently required to be paid as specified in the Policies will not be increased or otherwise changed as a result of the Restructuring. It is the intention of MMIC that its current policies with respect to dividends or refunds of premiums to Policyholders will not be affected by the Restructuring.

The principal Equity Rights of Members are as follows:

- The right to elect the directors of MMIC.
- The right to approve or disapprove proposed changes in the Articles of Incorporation of MMIC.
- The right to vote (or grant proxies to vote) on any plan of conversion, voluntary dissolution or such other matters as may come before the Members at an annual or special meeting of MMIC's Members.
- The right to receive and/or share in any distribution of, or to receive consideration based upon, the remaining surplus, if any, of MMIC in the event of MMIC's ultimate dissolution and liquidation (which means, if MMIC were to become insolvent or go out of business).
- The right to receive cash, stock or such other consideration as is approved by the Wisconsin Commissioner in exchange for the Members' Equity Rights in the event of the demutualization of MMIC (which would require approval by the Board and the Members and by the Wisconsin Commissioner).

On the Effective Date, the Equity Rights of Members of MMIC shall be automatically transferred to MIHC. Members will not receive any cash, stock or other consideration in exchange for their Equity Rights in MMIC. Rather, the Members' Equity Rights in MMIC will be extinguished and replaced with Equity Rights in MIHC, and the Equity Rights in MIHC will be identical to those set forth above with respect to MMIC, except that they shall be exercised with respect to the operations of MIHC and not those of MMIC or Converted MMIC. The Board of Directors of MIHC, representing the interests of Policyholders, will exercise voting control over the election of directors of Converted MMIC and over other matters pertaining to the governance of Converted MMIC. Holders of Policies issued by Converted MMIC on or after the Effective Date will automatically become Members of MIHC in accordance with the articles of incorporation and bylaws of MIHC and the applicable provisions of Chapter 644 of the Wisconsin Insurance Code; provided, however, that the Equity Rights of a Policyholder of Converted MMIC shall continue only so long as the related Policy remains In Force, and no Member of MIHC may transfer such Member's Equity Rights in MIHC apart from the Policy which gives rise to the Member's Equity Rights.

**(3) Summary of Contract and Member Rights**

	<b>Before Restructuring</b>	<b>After Restructuring</b>
<b>Contract Rights</b>	<p>A. All Policy benefits and obligations are obligations of MMIC.</p> <p>B. Some Policies pay dividends or provide other re-funds of premiums, which amounts may increase or decrease as determined by the Board of Directors of MMIC.</p>	<p>A. All Policy benefits and obligations remain as obligations of Converted MMIC. Converted MMIC is the same company except it is reorganized as a stock insurance company. The Mutual Holding Company Plan will not in any way increase premiums, diminish Policy benefits or alter other Policy obligations.</p> <p>B. MMIC's current policies with respect to dividends or other refunds of premiums to Policyholders will not be affected by the Restructuring.</p>
<b>Equity Rights</b>	<p>A. One vote per Member.</p> <p>B. Policyholders share in MMIC's net worth and/or stock subscription rights in the event of liquidation, dissolution or conversion proceedings.</p>	<p>A. One vote per Member.</p> <p>B. Members of MIHC share in MIHC's net worth and/or stock subscription rights in liquidation, dissolution or conversion proceedings.</p>

**(4) Directors and Executive Officers**

On the Effective Date of the Restructuring, it is intended that the separate Boards of Directors of MIHC and Converted MMIC will each consist of the same nine (9) directors that currently comprise the Board of Directors of MMIC. In subsequent years, directors of MIHC will be elected by its voting Members, and directors of Converted MMIC will be elected by its shareholder(s), in each case in accordance with the applicable corporate bylaws.

On the Effective Date, it is also intended that the Executive Officers of both MIHC and Converted MMIC will be the same individuals as currently serve in those positions for MMIC. In subsequent years, the Boards of Directors of MIHC and Converted MMIC will appoint the officers of their respective companies.

For information regarding the current directors and executive officers of MMIC, and the proposed directors and executive officers of MIHC and Converted MMIC, see *DIRECTORS AND OFFICERS OF MMIC, CONVERTED MMIC, AND MIHC* at page 36.

#### **(5) Corporate Governance**

MMIC is not authorized, as a mutual insurance company, to issue capital stock and, therefore, has no shareholders. MMIC operates under the direction of its Board of Directors, which is elected by the Members of MMIC. After the Restructuring, Converted MMIC will operate under the direction of its Board of Directors and all voting rights, including the election of the Board of Directors of Converted MMIC, will be vested exclusively in the holder(s) of its outstanding voting stock; specifically, MIHC. Moreover, under Wisconsin law, MIHC must retain ownership, directly or indirectly, of at least 51% of the voting stock of Converted MMIC at all times. Accordingly, MIHC will have voting control over the outcome of most matters presented to the stockholders of Converted MMIC for resolution by vote, including the election of the Board of Directors for Converted MMIC.

MIHC will not be authorized, as a mutual holding company, to issue capital stock and therefore will have no shareholders. After the Restructuring, MIHC will operate under the direction of its Board of Directors and all voting rights, including the election of the Board of Directors of MIHC, will be vested exclusively in the Policyholders of Converted MMIC who become Members of MIHC. These Members will be entitled to vote on all matters requiring action by the Members, including the election of the directors of MIHC. On the Effective Date, the Policyholders of MMIC will become the exclusive Members of MIHC. Subsequent to the Effective Date, the owners of Policies issued from time to time by Converted MMIC will also automatically become Members of MIHC. Such Policyholders will remain Members of MIHC as long as their respective Policies remain In Force.

#### **(6) Potential Sale of Stock of Subsidiaries**

Converted MMIC, or any subsidiary intermediate holding company created by MIHC after the Restructuring, may issue new shares of capital stock or debt securities to the public or other third parties. Under Wisconsin law, however, MIHC will at all times own at least 51% of the voting stock of Converted MMIC or any subsidiary intermediate holding company created by MIHC, and thereby will maintain voting control of the same. No shares of capital stock or debt securities will be issued or sold concurrently with the Restructuring and there are no current plans for such activity in the future.

#### **(7) Federal Tax Consequences**

The following is a general discussion of certain U.S. federal income consequences of the Restructuring. This discussion is for general information purposes only and does not purport to address all tax consequences that may be relevant to a Member or to MMIC. For example, this discussion does not address any federal estate tax or excise tax considerations, any state, local or foreign tax considerations, or any special federal income tax considerations which may apply to particular Policyholders because of their individual circumstances. This discussion is based upon the Internal Revenue Code of 1986, as amended (“Code”), regulations promulgated

by the U.S. Treasury Department and judicial and administrative rulings and decisions in effect on the date of this Policyholder Information Statement, all of which are subject to change, possibly with retroactive effect. **Accordingly, each Member is urged to consult his or her own tax advisor regarding the specific tax consequences of the Restructuring that may be applicable, including the reporting requirements, the applicability of federal, state, local and foreign tax laws and the effects of any changes in tax laws or regulations.**

The consummation of the Restructuring is subject to the condition that MMIC obtain either a private letter ruling issued by the IRS or an opinion of Foley & Lardner or other independent tax counsel to MMIC, in either case substantially to the effect that MMIC, MIHC and/or MMIC's Policyholders will not recognize gain or loss for U.S. federal income tax purposes in connection with the conversion of MMIC from a mutual insurance company to a stock insurance company, the formation of MIHC, and the contribution of the stock of Converted MMIC to MIHC.

On the Effective Date, Equity Rights in MMIC currently held by Policyholders will be extinguished and automatically will become Equity Rights in MIHC. The Policyholders' Contract Rights and obligations under their insurance Policies will remain with Converted MMIC. The terms and provisions of Policies In Force at the Effective Date will not be changed. See *EFFECT UPON CONTRACT RIGHTS AND EQUITY RIGHTS OF MMIC POLICYHOLDERS* at page 24.

The extinguishing of Members' Equity Rights in MMIC and the replacement of such Equity Rights with Equity Rights in MIHC pursuant to the Restructuring is intended to qualify as a non-recognition transfer under the Code, meaning that Members will not recognize any gain or loss for U.S. federal income tax purposes. The tax basis of the Equity Rights in MIHC received by Members whose MMIC Equity Rights are extinguished will be zero.

#### **(8) Federal Securities Law Consequences**

The consummation of the Restructuring is subject to the condition that MMIC obtain either a "no action" letter from the Securities and Exchange Commission relating to matters pertaining to the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended, or an opinion from Foley & Lardner or other independent legal counsel in form and substance satisfactory to the Board with respect to federal and state securities law matters.

### **VOTING CONSIDERATIONS AND RISK FACTORS**

The Board of Directors and management of MMIC believe that the Restructuring described above is fair and equitable to Policyholders and will benefit MMIC and Policyholders. However, prior to voting, Eligible Members should carefully consider the implications of the Restructuring, including the following:

#### *Retention of Mutual Form of Organization*

The mutual nature of the organization will be preserved in a number of important aspects. The Equity Rights of Policyholders will be transferred from MMIC to the new mutual insurance holding company, MIHC. Policyholders, through MIHC, will maintain ultimate direct

or indirect voting control of Converted MMIC. Under Wisconsin law, even if MIHC decides to sell stock, directly or indirectly, of Converted MMIC, it will be required at all times to retain, directly or indirectly, at least 51% of shares of voting stock of Converted MMIC. As a consequence, the new structure serves to preserve mutuality.

MMIC believes that the continuation of this mutual structure will serve other positive ends. Foremost, MMIC believes that mutuality will help preserve its Policyholder service orientation and best facilitate MMIC's ability to pursue long range goals. In this vein, the mutual holding company structure also preserves MMIC's ability to engage in certain mutual-to-mutual company merger and affiliation transactions. See *MUTUAL-TO-MUTUAL TRANSACTIONS* at page 17.

### *Organizational Flexibility*

The new holding company structure will be more complex, but it will give MMIC greater organizational flexibility in the future with respect to affiliating with other companies or aligning subsidiaries and affiliates for optimal financial benefits or for administrative advantages. For example, the mutual insurance holding company structure would make it possible for MMIC and another mutual insurance company to combine under a single mutual insurance holding company. Combinations with other insurance companies could include either property-casualty companies or life and health companies. Each of these insurers could, if considered strategically advantageous to do so, maintain its separate identity. Additionally, through the ability to use stock as an acquisition currency, Converted MMIC and its parent company will be better positioned to respond to strategic acquisition opportunities. Flexibility to address these growth opportunities is essential as the insurance industry continues to consolidate.

### *Your Rights as a Policyholder*

Each MMIC Policyholder has both Contract Rights under his or her Policy(ies) and Equity Rights in MMIC. Upon consummation of the Plan, a Policyholder's Contract Rights will remain in the Converted MMIC. If you are a Policyholder of a Policy issued by MMIC that is In Force on the Effective Date of the Restructuring, you will automatically become a Member of MIHC. Policyholders of Policies issued by Converted MMIC after the Effective Date of the Restructuring also will automatically become Members of MIHC.

On the Effective Date, the Equity Rights of Members of MMIC will be extinguished and replaced with Equity Rights in MIHC. "Equity Rights" are the uncertificated rights in the equity of MMIC, conferred by Wisconsin law, including: (i) the right to vote for the board of directors and the right to vote on any plan of conversion, voluntary dissolution or amendment to the articles of MMIC, and (ii) the right to share in any liquidation, dissolution or conversion proceedings under the articles of incorporation or bylaws of MMIC, or otherwise as provided by Wisconsin law.

The Plan will not result in any change in the Contract Rights of Policyholders or in MMIC's existing business operations. After the consummation of the Plan, the entire organization, including Converted MMIC and MIHC, will continue to be regulated in varying degrees by the Wisconsin Commissioner to assure that Policyholders' interests are protected.

**Every Policy issued by MMIC that is In Force on the Effective Date will continue In Force as a Policy of Converted MMIC. The Plan will not increase premiums or diminish Policy benefits or other Policy obligations to Policyholders. It is MMIC's intention that its current policies with respect to dividends to Policyholders will not be affected by the Restructuring.**

*No Consideration Distributed to Policyholders in the Conversion.*

The Mutual Holding Company Plan contemplates extinguishing the Policyholders' Equity Rights in MMIC and substituting for those extinguished rights similar Equity Rights in MIHC. See *EFFECT UPON CONTRACT RIGHTS AND EQUITY RIGHTS OF MMIC POLICYHOLDERS* at page 24. Other than Equity Rights in MIHC, no consideration in the form of cash or stock or other forms of consideration will be distributed to Policyholders. By contrast, if MMIC were to undergo a demutualization, Policyholders might receive consideration in the form of stock, cash, subscription rights to purchase shares of stock, or policy credits in exchange for the extinguishing of their Membership Interests. The Restructuring would not preclude a subsequent demutualization of MIHC at some future date if the Board and Members were to determine that such an alternative was appropriate and the Wisconsin Commissioner approved the demutualization. There are, however, no present plans to demutualize.

*Movement of Subsidiaries and Other Assets; Possible First Nonprofit Mutual Transaction*

The mutual holding company structure permits the realignment of subsidiaries of MMIC, and the transfer of other assets out of MMIC to one or more affiliates, provided such movement is approved by the Wisconsin Commissioner and consistent with Wisconsin law. It is possible that sometime in the future a realignment of subsidiaries may occur either by sale, or as an ordinary or extraordinary dividend or otherwise, as the case may be. There can be no assurances that any future transfers of assets, including an ordinary or extraordinary dividend or realignment of subsidiaries, would not be detrimental to the financial condition of MMIC, although any material transaction would likely require regulatory approval.

*Issuance of Stock to Third Parties*

At present, Policyholders have the right to elect the Board of Directors of MMIC and to vote on all other corporate matters presented to them for a vote. On the Effective Date, MIHC will directly or indirectly own all of the outstanding voting stock of Converted MMIC. However, either Converted MMIC, or a subsidiary intermediate holding company subsequently created by MIHC to hold the stock of Converted MMIC (an "intermediate holding company"), could issue voting securities to the public or to other third parties, subject to approval by the Wisconsin Commissioner. The result of any such stock issuance or sale would be that such subsidiary would receive the proceeds of the sale, which would thereby increase its assets and stockholders' equity, but MIHC – and indirectly, the Members of MIHC – would then control less than 100% of the voting stock of such subsidiary. However, MIHC by law is required at all times to maintain direct or indirect voting control of Converted MMIC. MMIC has no current plans to issue stock to third parties.

### *Potential Conflicts between Interests of Policyholders and Shareholders*

The current duties and obligations of the Board of Directors of MMIC is to act in the best interests of its Members, who are the Policyholders of MMIC. After the Restructuring, the duties and obligations of the Board of Directors of MIHC will be to act in the best interests of these same Members and Policyholders, and those which become Members and Policyholders after the Restructuring. If, however, Converted MMIC decides to undertake an initial public offering or other issuance of stock, the obligations and duties of the Board of Directors of Converted MMIC will extend to outside investors in addition to the Members of MIHC. This would also be true if a subsidiary intermediate holding company were organized in the future and shares of stock of the subsidiary were sold to the public or to other third parties. Accordingly, there may be some potential for the development of conflicting interests between the Members of MIHC and the shareholders of Converted MMIC or any subsidiary intermediate holding company (collectively, the “Shareholders”). One potential conflict would be between the interests of Policyholders of Converted MMIC in receiving insurance at the lowest cost possible and the interests of Shareholders in receiving the highest return on their investment. Additionally, there may be conflicts over how the growth of, and profit from, Converted MMIC’s business should be apportioned between the Policyholders and the Shareholders. However, MIHC, representing the Policyholders, would remain the majority voting shareholder with ultimate voting control, either directly or indirectly, over Converted MMIC.

### *Marketability of Stock*

MIHC will own 100% of the shares of voting stock of Converted MMIC. Under Wisconsin law, in the event that shares of Converted MMIC are sold at a later date to third parties, MIHC will be required at all times to own, directly or indirectly, at least 51% of the shares of voting stock of Converted MMIC. Accordingly, only a minority voting interest in Converted MMIC may be directly or indirectly available for sale to the public at such time. There is a risk that the inability of public investors to acquire a controlling interest could potentially have an adverse effect on the value and/or marketability of the stock.

### *Market Conditions*

Any future decision to issue capital stock or debt securities would depend upon, among other factors, the then-current needs of the organization for additional capital, then-prevailing market conditions, the financial performance and business prospects of the organization, and the interests of the Members of MIHC. There can be no assurance as to when, if, or on what terms any such capital raising efforts would take place.

### *Issuance of Debt*

A mutual insurance company may issue debt in the form of surplus notes. Generally, payments of either principal or interest on surplus notes may not be made without consent of the Wisconsin Commissioner. A mutual company is often limited directly by regulatory bodies as to the amount of surplus notes which may be issued in relation to the issuer’s other surplus. Under the proposed mutual holding company structure, MIHC or any subsidiary could issue debt in forms other than surplus notes. Unlike surplus notes, no approval

of the Wisconsin Commissioner would be required to pay principal or interest on such debt. The mutual holding company complex could become financially leveraged to a greater extent than is now the case. No assurances can be given that such additional leverage would not be detrimental to the financial solvency or ratings of MIHC or Converted MMIC. However, there are no current plans for MIHC or any subsidiary to issue any debt.

#### *No Fairness Opinion from an Investment Banker*

In connection with its approval of the Plan, the Board of Directors did not receive a fairness opinion of an investment banker. No such opinion was necessary in this case because, among other reasons (i) no initial public offering is being undertaken or is presently contemplated, (ii) any initial stock offering would require the approval of the Wisconsin Commissioner, and (iii) the Plan is generally similar to plans for forming mutual holding companies which have been approved and adopted in other states.

#### *Possible Litigation*

There can be no assurance that adoption of the Plan will not result in litigation. Certain mutual insurance companies that have reorganized or proposed to reorganize to a mutual holding company structure have been sued by certain policyholders alleging that such a structure, although expressly authorized by statute, is unfair to policyholders. Litigation can be costly and time consuming and could result in a diversion of effort and resources by MMIC's management. MMIC believes it has complied with applicable law, and the MMIC Board of Directors believes that the Restructuring is fair and equitable to Policyholders, and the Board expects that the Restructuring will benefit Policyholders and will not be contrary to their interests or the interests of the Wisconsin public.

#### *Differences in Insolvency Laws*

A Wisconsin mutual insurer, such as MMIC, is subject to the jurisdiction of the Wisconsin Commissioner in the event of the insolvency of the Company. While it is not clear, a Wisconsin mutual holding company may be under the jurisdiction of the federal bankruptcy laws. There can be no assurance that federal bankruptcy laws will not reduce the priority (if any) of the claims of Policyholders of MMIC, or preempt Wisconsin law and/or make it difficult for the Wisconsin Commissioner to recover assets of the mutual holding company for the benefit of the Policyholders of MMIC.

#### *Holding Company Structure Limitations on Shareholder Dividends*

After the Restructuring, MIHC will be an insurance holding company whose assets consist, directly or indirectly, of all of the outstanding shares of common stock of Converted MMIC. The ability of MIHC to engage in any meaningful business may depend in part upon the receipt of sufficient funds from Converted MMIC in the form of stockholder dividends. The payment of stockholder dividends from Converted MMIC to its parent company will be regulated under the Wisconsin Insurance Code. Converted MMIC would need the Wisconsin Commissioner's prior approval to pay a stockholder dividend which exceeds certain statutory levels.

### *Change in Regulations*

Certain activities that are regulated by the Wisconsin Commissioner under the present structure may not be regulated, or may be regulated differently, under the mutual holding company structure. See *REGULATION* at page 36. Uncertainty in this area is heightened by the fact that there has not been a Wisconsin mutual insurance company that has completed a mutual holding company restructuring in Wisconsin. Furthermore, depending on its future business activities, MIHC may become subject to various federal laws and come under the authority of federal regulators. If the interests of federal regulators and state insurance regulators conflict, Members' Equity Rights in MIHC could be adversely affected.

### *Absence of Implementing Regulations*

The Wisconsin Insurance Code provides that the Wisconsin Commissioner may issue regulations to implement the mutual holding company laws set forth in Chapter 644 of the Wisconsin Insurance Code and establish applicable procedures thereunder. Although no regulations or procedures have been promulgated to date, the Wisconsin Commissioner may at some future point propose and/or promulgate regulations or procedures that may adversely affect MIHC and/or its Members. Converted MMIC Policyholders will receive Equity Rights in MIHC that may be subject to different insurance regulatory oversight than an insurance company. There can be no assurances that any regulations adopted by the Wisconsin Commissioner will not affect MMIC's Mutual Holding Company Plan, including its conditions as to effectiveness and the contemplated timing for consummation of the Mutual Holding Company Plan.

### *Reliance on Management*

The success of Converted MMIC's strategy will depend, in large part, upon the skill and judgment of its management. While past performance does not assure future success, MMIC's management believes that it has consistently demonstrated high levels of skill and judgment in managing the operations and affairs of the Company for the benefit of Policyholders.

## **SELECTED FINANCIAL INFORMATION**

The selected financial information set out below for MMIC for each of the three (3) years ended December 31, 2000, 1999 and 1998 is derived from audited annual statutory financial statements of MMIC. The selected financial information set forth below at and for the interim period ended as of March 31, 2001 is derived from unaudited quarterly statutory financial statements. This selected financial information is presented on a statutory basis in conformity with accounting practices described or permitted by the Wisconsin Commissioner, which is a comprehensive basis of accounting other than generally accepted accounting principles. This financial information should be read in conjunction with the audited statutory financial statements on file with the Wisconsin Commissioner and is incorporated herein by reference.

Because the financial statements of MIHC after consummation of the Restructuring, prepared on either a GAAP or SAP basis, will not differ materially from the

financial statements of Converted MMIC on a GAAP or SAP basis, respectively, no pro forma financial information for MIHC is presented in this Policyholder Information Statement.

**Milwaukee Mutual Insurance Company**  
**SAP Income Statement**  
**(Dollars in Thousands)**

	Year ended December 31,			3 Months Ended March 31,	
	2000	1999	1998	2001	2000
Premiums earned	2,575	2,501	2,920	652	593
Losses incurred	2,755	(303)	(229)	478	387
LAE incurred	823	314	995	86	69
Other underwriting expenses	1,147	1,401	1,436	301	318
Net underwriting income	<u>(2,150)</u>	<u>1,089</u>	<u>718</u>	<u>(213)</u>	<u>(181)</u>
Net investment income	865	1,281	1,099	173	285
Other income/expense	1	(8)	(1)	1	
Realized capital gains	(49)	138	(71)		
Dividends to policyholders	50	29		13	14
Income before taxes	<u>(1,383)</u>	<u>2,471</u>	<u>1,745</u>	<u>(52)</u>	<u>90</u>
Income taxes incurred	2	18	(26)		2
Net income	<u><u>(\$1,385)</u></u>	<u><u>\$2,453</u></u>	<u><u>\$1,771</u></u>	<u><u>(\$52)</u></u>	<u><u>\$88</u></u>
Total assets	71,804	70,597	75,455	54,173	70,638
Total liabilities	34,911	30,921	35,872	17,056	31,396
Surplus	36,893	39,676	39,583	37,117	39,242

**SPECIAL MEETING**

*Date, Time and Place*

This Policyholder Information Statement is being furnished to Eligible Members of MMIC in connection with the solicitation of proxies by the Board of Directors of MMIC for use at the Special Meeting to be held on \_\_\_\_\_, 2001 at \_\_:\_\_.m., Central Time, at the law offices of Foley & Lardner, 777 East Wisconsin Avenue, 40<sup>th</sup> Floor, Milwaukee, Wisconsin. See *NOTICE OF SPECIAL MEETING OF POLICYHOLDERS*.

*Matters to be Considered*

At the Special Meeting, Eligible Members will be asked to consider and vote upon a proposal to approve the Mutual Holding Company Plan and the Restructuring contemplated thereby and to consider and vote upon all other matters as they may properly come before the meeting.

### *Eligibility to Vote*

A Member of MMIC will be entitled to vote on the Mutual Holding Company Plan by virtue of having met both of the following requirements:

- Such Member was listed on the records of MMIC as the Policyholder of one or more Policies on the Resolution Date (or as principal if the Policy is a surety bond or obligation); and
- One or more of these Policies was In Force on the Record Date. A Policy will be deemed to be In Force on a given day if it has been issued and has not been cancelled or otherwise terminated. Whether or not a Policy is In Force will be determined based upon MMIC's records.

### *Vote Required*

Each Eligible Member is entitled to one vote. The affirmative vote of at least a majority of the Eligible Members present in person or by valid proxy at the Special Meeting is required to approve the Mutual Holding Company Plan. A quorum is required at the Special Meeting and shall consist of at least ten (10) Eligible Members in person at the Special Meeting. Approval of the Plan by the requisite vote of the Eligible Members is a condition to, and is required for, consummation of the Restructuring.

### *Voting; Revocation of Proxies*

Each Eligible Member shall be entitled to vote either by ballot made in person at the Special Meeting, or by proxy. For all Eligible Members, a proxy exclusively for use at the Special Meeting accompanies this Policyholder Information Statement. The proxy enables Eligible Members to vote FOR or AGAINST the proposed Plan and the transactions contemplated thereby. Only the Special Meeting proxy shall be used in connection with approval of the Plan. Eligible Members may use the proxy if they are unable to attend the Special Meeting in person. A proxy properly signed and received by MMIC prior to the Special Meeting will be voted at the Special Meeting in accordance with the instructions thereon, unless properly revoked prior to such vote. Proxies must be received by 5:00 p.m., Central Time, on \_\_\_\_\_, 2001 in order to be counted. If a proxy is properly signed and received, and the manner of voting is not indicated on the proxy, the proxy will be voted FOR the matters being considered at the Special Meeting. If a proxy is marked to vote both FOR and AGAINST a particular item, the proxy will not be counted and will not be regarded as a vote cast at the Special Meeting. A replacement proxy may be obtained by calling us at 262-938-0046, Monday through Friday from 9:00 a.m. to 4:00 p.m., Central Time.

Any proxy given pursuant to this solicitation may be revoked by the Eligible Member at any time prior to the voting thereof on the matters to be considered at the Special Meeting by filing with the Secretary of MMIC a written revocation or a duly executed proxy bearing a later date. Attendance at the Special Meeting will constitute a revocation of the proxy.

## CONDITIONS TO CLOSING OF RESTRUCTURING

### *Approval of Eligible Members of MMIC*

As required by the Mutual Holding Company Plan and the Wisconsin Insurance Code, the Plan and the Restructuring contemplated thereby – including the proposed amended and restated articles of incorporation and bylaws of Converted MMIC and the proposed articles of incorporation and bylaws of MIHC – must be approved by the affirmative vote of a majority of the Eligible Members represented by valid proxy or present in person at the Special Meeting.

### *Certain U.S. Federal Tax Matters*

As required by the Mutual Holding Company Plan, the Plan and the transactions contemplated thereby shall not be consummated until MMIC receives either a private letter ruling issued by the Internal Revenue Service or an opinion from Foley & Lardner or other independent legal counsel substantially to the effect that MMIC, MIHC and/or MMIC's Policyholders will not recognize gain or loss in connection with the conversion of MMIC from a mutual insurance company to a stock insurance company, the formation of MIHC and the contribution of the stock of Converted MMIC to MIHC.

### *Certain U.S. Federal Securities Matters*

As required by the Mutual Holding Company Plan, the Plan and the transactions contemplated thereby shall not be consummated until MMIC receives either a "no action" letter from the Securities and Exchange Commission relating to matters pertaining to the Securities Act of 1933 and the Securities Exchange Act of 1934, each as amended, or an opinion from Foley & Lardner or other independent legal counsel in form and substance satisfactory to the Board with respect to federal and state securities law matters.

### *Other Conditions*

As required by the Mutual Holding Company Plan, the Plan and the transactions contemplated thereby shall not be consummated until (i) the issuance by the Wisconsin Commissioner of a new certificate of authority to Converted MMIC and a certificate of incorporation to MIHC, and (ii) the satisfaction of all conditions precedent to FNP's restructuring to a mutual holding company structure (see *TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY* at page 39); provided, however, that this latter condition may be waived at the discretion of the Board of Directors of MMIC.

## AMENDMENT AND WITHDRAWAL OF THE PLAN

The Mutual Holding Company Plan provides that, at any time before the Effective Date, MMIC may, by resolution of the Board, amend or withdraw the Plan and the Restructuring contemplated therein. In the event of any such amendment, the Wisconsin Commissioner will determine whether the amendment changes the Plan in a manner that is materially disadvantageous to any of the Policyholders of MMIC and, in such case, may require another Public Hearing on the Plan as amended. If an amendment that the Commissioner determines is materially disadvantageous to any of the Policyholders is made after the Plan has been approved

by the Eligible Members at the Special Meeting, the Plan as amended must be submitted to the Eligible Members for their reconsideration.

## **REGULATION**

MMIC is licensed to transact insurance business in, and is subject to the regulation and supervision of, the states of Wisconsin, Arizona, Colorado, Illinois, Indiana, Iowa, Kentucky, Minnesota, Nebraska, North Dakota, Ohio, and South Dakota. See *BACKGROUND OF MMIC* at page 16. The degree of this regulation and supervision varies by jurisdiction, but Wisconsin and most of the other jurisdictions with authority over MMIC have laws and regulations governing the financial aspects of insurers, including standards of solvency, reserves, reinsurance, capital adequacy and the business conduct of insurers. Upon consummation of the Restructuring, Converted MMIC will continue to be subject to the same degree of insurance regulation and supervision, albeit as a stock insurance company rather than a mutual insurance company.

As a Wisconsin mutual holding company, MIHC will also be subject to regulation by the Wisconsin Commissioner. Generally, the Commissioner will have the power over MIHC to assure that the interests of Policyholders are protected. The Wisconsin Insurance Code provides for such regulation in the following ways, among others:

- Requiring MIHC to at all times maintain direct or indirect ownership and control of at least 51% of the outstanding shares of Converted MMIC's voting stock;
- Allowing MIHC to amend its Articles of Incorporation only with the prior approval of the requisite number of its Members;
- Requiring MIHC to file with the Commissioner, within sixty (60) days after adoption, a copy of its bylaws and any amendments thereto;
- Prohibiting MIHC from engaging in the business of insurance (other than through subsidiaries like Converted MMIC);
- Prohibiting MIHC from becoming party to any contract that has the effect of delegating to a person, to the substantial exclusion of its Board of Directors, the authority to exercise management control of MIHC or any of its major corporate functions; and
- Prohibiting MIHC from dissolving or liquidating without the prior approval of the Wisconsin Commissioner or the court having jurisdiction over such matters (and in which case each Member may share in the amount, if any, of MIHC's assets in excess of its liabilities to the extent of all premium payments made by such Member plus interest at a statutorily determined rate).

## **DIRECTORS AND OFFICERS OF MMIC, CONVERTED MMIC AND MIHC**

The following individuals – identified by name, current business address, and occupation (for the preceding ten (10) years) – currently serve as the directors and/or officers (as

indicated) for MMIC, and as of the Effective Date of the Restructuring will serve in those same capacities for each of Converted MMIC and MIHC:

***David D. Chomeau (Director)***

David D. Chomeau retired as of May, 2001. Prior to retirement, Mr. Chomeau held the position of Vice Chairman & Director of Corporate Development for The Reliable Life Insurance Company, St. Louis, Missouri. Mr. Chomeau has held various positions at Reliable since 1966. Address: 419 Way Avenue, Kirkwood, MO 63122.

***Sanford J. Jett (Director)***

Sanford J. Jett is currently Senior Vice President of Administration for The ServiceMaster Company, Downers Grove, Illinois. He has been with ServiceMaster since 1979. Address: The ServiceMaster Company, 860 Ridge Lake Boulevard, Memphis, TN 38120.

***Terry L. Van Der Aa (Director)***

Terry L. Van Der Aa is currently President & CEO of American Transit Corporation, Oakbrook Terrace, Illinois. He has held that position since 1990, and has been with the company since 1973. Address: Vancom, 1 MidAmerica Plaza, #401, Oakbrook Terrace, IL 60181.

***Joseph C. Branch (Secretary & Director)***

Joseph C. Branch is a Partner in the law firm of Foley & Lardner and has held that position since 1989. From 1977 to 1989, Mr. Branch was a shareholder/officer in the law firm of Whyte & Hirschboeck, S.C. Address: Foley & Lardner, 777 East Wisconsin Avenue, Milwaukee, WI 53202.

***Daniel R. Doucette (President and Chief Executive Officer, Officer & Director)***

Daniel R. Doucette is the President & Chief Executive Officer of Milwaukee Mutual Insurance Company and has held this position since 1989. Address: Milwaukee Mutual, 250 North Sunny Slope Road, #250, Brookfield, WI 53005.

***Richard C. Vie (Director)***

Richard C. Vie is the Chairman, President & CEO of Unitrin, Inc., a company he has been with since 1990. Address: Unitrin, Inc., One East Wacker Drive, Chicago, IL 60601.

***John P. Gould (Director)***

John P. Gould is a Professor and Distinguished Service Professor of Economics at the University of Chicago. He has held this position since 1965. Address: 100 East Huron, #2105, Chicago, IL 60611.

***Richard A. Hemmings (Director)***

Richard A. Hemmings is a Partner in the law firm of Lord, Bissell & Brook, a position he has held since 1980. Address: Lord, Bissell & Brook, 115 South LaSalle Street, Chicago, IL 60603.

***Peter H. Huizenga (Director)***

Peter H. Huizenga is President of Huizenga Capital Management and has held this position since 1997. Prior 1997, Mr. Huizenga was a Director of Waste Management, Inc., a company he co-founded in 1968.

Address: Huizenga Capital Management, 2215 York Road, #500, Oak Brook, IL 60521.

***Elisha F. Wright (Treasurer)***

Elisha F. Wright is the Treasurer and Vice President of Milwaukee Mutual Insurance Company and has held this position since 1997. From 1994 to 1997, Ms. Wright was the Senior Corporate Analysis/Planning Analyst for the Milwaukee Insurance Company. From 1991 to 1994, Ms. Wright held the position of Senior Accountant at KPMG Peat Marwick, LLP.

Address: Milwaukee Mutual, 250 North Sunny Slope Road, #250, Brookfield, WI 53005.

***Patrice L. Bottoni (Assistant Secretary)***

Patrice L. Bottoni is the Administrator of Executive Services and Assistant Secretary of Milwaukee Mutual Insurance Company and has held that position since 1995. From 1989 to 1995, Ms. Bottoni was the Administrator of Executive Services for Milwaukee Insurance Company.

Address: Milwaukee Mutual, 250 North Sunny Slope Road, #250, Brookfield, WI 53005.

## **TRANSACTION WITH FIRST NONPROFIT MUTUAL INSURANCE COMPANY**

### *Ongoing Negotiations, Letter of Intent and Agreement and Plan of Merger*

MMIC's management – with the knowledge and consent of its Board of Directors – has been engaged in discussions concerning a possible transaction and affiliation with management and representatives of First Nonprofit Mutual Insurance Company, an Illinois property and casualty mutual insurance company (“FNP”). The transaction would be consistent with MMIC's desire to utilize a mutual holding company structure as a platform to merge, acquire or affiliate with other mutual entities, as well as other types of insurers and non-insurers. The discussions with FNP resulted in the execution of a Letter of Intent between the parties on or around February 5, 2001. Subsequent discussions with FNP resulted in the current form of a definitive Agreement and Plan of Merger to be executed by their respective mutual holding companies. This Agreement and Plan of Merger is part of the Filing and copies of the same are available to Policyholders and members of the general public. See *AVAILABLE INFORMATION* at page 2.

### *The Three Components of the Proposed Transaction*

The Letter of Intent describes the transaction as including three separate steps or components: (i) A quota share reinsurance agreement between MMIC as the reinsurer and FNP as the reinsured; (ii) MMIC and FNP separately undergoing the process of restructuring to a mutual holding company format under the laws of their respective domiciliary states; and (iii) the merger of the parties' two mutual holding companies to form a single mutual holding company that will then serve as the parent of the Converted FNP and Converted MMIC stock insurance companies.

#### **(1) The 80% Quota Share Reinsurance Agreement**

Consistent with the Letter of Intent, FNP and MMIC entered into an 80% Quota Share Reinsurance Agreement, effective July 1, 2001, pursuant to which FNP cedes to MMIC 80% of its retained liability under its various insurance programs and policies, net of third-party reinsurance other than that provided by MMIC (the “MMIC/FNP Treaty”). Under the MMIC/FNP Treaty, FNP paid MMIC 80% of its unearned premium reserve at the time of the transaction, and continues to pay MMIC 80% of the premiums generated on new or renewal business, subject to a ceding commission payable to FNP roughly equal to FNP's actual expenses in producing, underwriting and administering the ceded business. The Illinois Director of Insurance approved the MMIC/FNP Treaty, effective July 1, 2001. In anticipation of the execution of the MMIC/FNP Treaty, MMIC and Trinity Universal Insurance Company, a Texas property and casualty insurer (“Trinity”), entered into an amendment of their existing 95% Quota Share Reinsurance Agreement (the “Trinity/MMIC Treaty”) in order to confirm the parties' understanding and intent that 95% of MMIC's liability under the MMIC/FNP Treaty passes through to Trinity under the terms of the Trinity/MMIC Treaty. MMIC filed the amendment with the Wisconsin Commissioner, which issued a non-disapproval letter dated July 3, 2001. Trinity filed the amendment with the Texas Department of Insurance, which issued a “no further action” letter dated July 19, 2001.

## **(2) Formation of Mutual Holding Companies**

In order to effect a merger between MMIC and FNP that will allow the insurance operations of both entities to continue under their current management as separate and distinct entities, each entity must change its organizational form to a mutual holding company structure. The purpose of the Mutual Holding Company Plan being submitted to the Eligible Members of MMIC is the creation of MIHC and the Restructuring of MMIC into a mutual holding company organizational form. As discussed elsewhere herein, the rights of Policyholders of MMIC to receive the benefits provided for in their Policies will not be changed by reason of the Restructuring. In a separate process, FNP has adopted a mutual holding company plan of its own and is seeking approval of the same by the Illinois Director of Insurance and its policyholders.

## **(3) The Merger of the Mutual Holding Companies**

Assuming the parties successfully complete their respective reorganizations to mutual holding company structures, the mutual holding companies created thereby will execute an Agreement and Plan of Merger in the form that is part of this Filing or substantially similar thereto, which will effect the merger of MIHC and First Nonprofit Mutual Holding Company (“FNPMHC”), the mutual holding company created by FNP (the “MHC Merger”). FNPMHC will be the surviving corporate entity following the MHC Merger, but it will change its name to “Mutual Insurers Holding Company” (“Surviving MHC”). Following, and as a result of, the MHC Merger, all Members of MIHC and FNPMHC will become members of Surviving MHC. It is intended that the initial Board of Directors of Surviving MHC will consist of nine (9) to thirteen (13) members, two (2) of whom will be selected by resolution of the Board of Directors of FNPMHC, and the remainder of whom will be selected by resolution of the Board of Directors of MIHC

The rights of Policyholders of MMIC to receive the benefits provided for in their Policies would not be changed by reason of the MHC Merger. If the MHC Merger transaction is consummated, policies issued by the insurance company subsidiaries of the respective mutual holding companies (including Policies issued by Converted MMIC) would be unaffected.

Upon closing of the MHC Merger, Converted MMIC would loan \$2 million in cash to First Nonprofit Insurance Company, the stock insurance company to be created by the restructuring of FNP pursuant to its mutual holding company plan, in exchange for a surplus note payable in full at maturity four years after the issue date in the amount of \$2.5 million, subject to regulatory approval. The surplus note will be cancelled without payment on the first anniversary date of the closing of the MHC Merger, unless otherwise agreed by the parties.

It will not be possible for the parties to execute the Agreement and Plan of Merger unless and until the parties successfully complete their respective reorganizations and their respective mutual holding companies are created pursuant to the Mutual Holding Company Plan discussed herein and its equivalent developed by FNP. The MHC Merger will also require approval of the respective Boards of Directors of FNPMHC and MIHC and the members of FNPMHC, and also the review and approval of the insurance regulatory authorities of Illinois and Wisconsin. Once those conditions are satisfied, MIHC and FNPMHC will execute the Agreement and Plan of Merger. There can be no assurance that all of the necessary conditions

stated above can or will be satisfied, or that the MHC Merger can be achieved. However, you should assume that a vote in favor of the Mutual Holding Company Plan by the Eligible Members will likely result in prompt completion of the Agreement and Plan of Merger transaction.

This Policyholder Information Statement contains various statements regarding the legal rights and obligations of MIHC following MMIC's conversion to a mutual holding company structure, and the fact that MIHC will be regulated by the Wisconsin Commissioner under the laws and regulations of the State of Wisconsin following the conversion. Should the MHC Merger be consummated, the legal rights and obligations of MIHC will become the legal rights and obligations of the Surviving MHC, subject to whatever changes are imposed or required under Illinois law. Further, the Surviving MHC, as an entity domiciled in Illinois, will be subject to regulation by the Illinois Director of Insurance under the laws and regulations of the State of Illinois. However, by virtue of the Surviving MHC's direct or indirect control of Converted MMIC, the Surviving MHC will still be subject to regulation by the Wisconsin Commissioner for holding company purposes under Chapter 617 of the Wisconsin Insurance Code and the regulations issued pursuant thereto.

#### *Information About FNP*

FNP, a property and casualty mutual insurance company based in Chicago, is the leading insurer of nonprofit organizations in Illinois. FNP provides three principal products: commercial package policies (combining insurance for both property and the liability exposures arising out of the property), workers' compensation and commercial automobile, exclusively to the nonprofit sector. FNP is licensed to do business in Illinois, Indiana, Maryland, Michigan, Minnesota, Pennsylvania, and the District of Columbia. Business is produced through approximately 250 independent agencies and brokers. For the year ended December 31, 2000, the Company's total direct premiums written were \$17,527,913, net premiums written were \$15,852,491 and net income was \$439,308. At December 31, 2000, its policyholders' surplus was \$8,209,654. The Company's current A.M. Best rating is B++ (Very Good).

**THE RESTRUCTURING AND THE SPECIAL MEETING OF POLICYHOLDERS DESCRIBED HEREIN DO NOT RELATE TO THE AGREEMENT AND PLAN OF MERGER OR ANY OTHER TRANSACTION INVOLVING FNP OR ITS AFFILIATES, AND YOU ARE NOT BEING ASKED AT THIS TIME, OR IN CONNECTION WITH THE SPECIAL MEETING, TO CONSIDER AND VOTE UPON THE AGREEMENT AND PLAN OF MERGER OR ANY OTHER TRANSACTION INVOLVING FNP OR ITS AFFILIATES. AT THIS STAGE, THERE IS NO FORMAL AGREEMENT WITH FNP REGARDING THE MHC MERGER. ANY SUCH TRANSACTION WOULD BE SUBJECT TO THE EXECUTION OF THE AGREEMENT AND PLAN OF MERGER, WHICH IS ITSELF SUBJECT TO APPROVAL BY ILLINOIS AND WISCONSIN REGULATORY AUTHORITIES, AND APPROVAL BY THE BOARDS OF THE RESPECTIVE MUTUAL HOLDING COMPANIES AS WELL AS BY THE MEMBERS OF FNPMHC. THERE CAN BE NO ASSURANCE THAT REQUISITE APPROVALS CAN BE OBTAINED, OR THAT A MERGER OF THE MUTUAL HOLDING COMPANIES CREATED BY THE PARTIES CAN BE ACHIEVED.**

## GLOSSARY

The following are definitions of certain terms used in this Policyholder Information Statement. These definitions are qualified in their entirety by the definitions of such terms in the Mutual Holding Company Plan, a copy of which is attached hereto as Attachment A. These definitions shall be equally applicable to both the singular and plural forms of any of the terms herein defined.

“Board” means the Board of Directors of Milwaukee Mutual Insurance Company.

“Contract Rights” means the Policyholder’s right to receive (i) the insurance coverage specified in the Policyholder’s Policy in accordance with the terms and provisions thereof and (ii) dividends and/or returns of premium, if and when declared by the Board in accordance with the terms and provisions of the Policyholder’s Policy.

“Converted MMIC” means Milwaukee Insurance Company, the stock insurance entity that will continue the corporate existence and insurance operations of MMIC, and be a subsidiary of MIHC, following the Restructuring.

“Effective Date” means the date upon which the Restructuring becomes effective, which will be the date upon which the Wisconsin Commissioner issues the certificate of authority to Converted MMIC.

“Eligible Member” means a Policyholder of MMIC on the Resolution Date and Record Date, based on MMIC’s records.

“Equity Rights” means the uncertificated rights in the equity of MMIC or MIHC, as applicable, conferred by Wisconsin law, including (i) Membership Interests in MMIC or MIHC, as applicable, and (ii) Rights in Surplus of MMIC or MIHC, as applicable.

“FNP” means First Nonprofit Mutual Insurance Company.

“FNPMHC” means the holding company that will be created as a result of FNP’s restructuring to a mutual holding company structure, which holding company will be initially named “First Nonprofit Mutual Holding Company.”

“In Force” means (with respect to a Policy) issued and not cancelled, expired or otherwise terminated.

“Member” means a Policyholder who, by the records of MMIC or Converted MMIC, and by their respective articles of incorporation and bylaws, is a holder of a Membership Interest in MMIC or MIHC, as applicable.

“Membership Interest” means the voting rights of a Member arising under the Wisconsin Insurance Code and the articles of incorporation and bylaws of MMIC, including the right to vote for the Board and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. On and after the Effective Date of the Restructuring, “membership interest” means the voting rights of a Member arising under the

Wisconsin Insurance Code and the articles of incorporation and bylaws of MIHC, including the right to vote for the board and the right to vote on any plan of conversion, voluntary dissolution or amendment of the articles of incorporation. “Membership Interest” does not include any Members’ Rights in Surplus, if any.

“MIHC” means the holding company that will be created as a result of the Restructuring set forth in this Plan, which holding company will be named “Mutual Insurers Holding Company.”

“MMIC” means Milwaukee Mutual Insurance Company.

“Mutual Holding Company Plan” or “Plan” shall each mean the mutual holding company plan approved by the MMIC Board of Directors and attached hereto as Attachment A, including all Exhibits thereto.

“Person” means an individual, partnership, firm, association, corporation, joint-stock company, limited liability company, limited liability partnership, trust, government, government agency, state or political subdivision of a state, public or private corporation, board of directors, association, estate, trustee, or fiduciary, or any similar entity.

“Policy” means an insurance policy or contract (other than a reinsurance contract), including any fidelity bond or any surety bond, or any binder or a renewal certificate issued by MMIC (or, on and after the Effective Date, Converted MMIC) in the course of business and not cancelled or otherwise terminated.

“Policyholder” means the Person identified in the records of MMIC or Converted MMIC as the holder of the Policy.

“Public Hearing” means the public hearing conducted by the Wisconsin Commissioner or a hearing examiner designated by the Wisconsin Commissioner and regarding the Mutual Holding Company Plan, pursuant to the provisions of Wis. Stat. § 644.07(6).

“Record Date” means the date established by the Board for the vote by Eligible Members for approval of the Mutual Holding Company Plan.

“Resolution Date” means May 17, 2001, the date the Board passed a resolution to the effect that the Restructuring is fair and equitable to Policyholders and expected to benefit Policyholders.

“Rights in Surplus” means any rights of a Member arising under MMIC’s articles of incorporation or Chapter 611 of the Wisconsin Insurance Code to a return of the surplus in respect of Policies of MMIC that may exist with regard to the surplus not apportioned or declared by the Board as divisible surplus, including rights of Members to a distribution of such surplus in dissolution or conversion proceedings under Chapter 611 of the Wisconsin Insurance Code. On and after the Effective Date of the Restructuring, “Rights in Surplus” means any rights of a Member of MIHC arising under its articles of incorporation or Chapter 644 of the Wisconsin Insurance Code to the net worth of MIHC, including rights of Members of MIHC to a distribution of any portion of the net worth of MIHC in dissolution or conversion proceedings

under Chapter 644 of the Wisconsin Insurance Code. “Rights in Surplus” shall not include any right to divisible surplus expressly conferred solely by the terms of an insurance policy or annuity contract.

“Surviving MHC” means FNPMHC after consummation of the MHC Merger, renamed as “Mutual Insurers Holding Company.”

“Wisconsin Commissioner” means the Office of the Commissioner of Insurance for the State of Wisconsin.

“Wisconsin Insurance Code” means the insurance laws of the State of Wisconsin, codified in Chapters 600 to 655 of the Wisconsin Statutes, and all applicable regulations.